Supreme Court, U.S.
FILED

98 850 NOV 23 1998

OFFICE OF THE CLERK

No. 98-

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1998

ROCKWELL INTERNATIONAL CORPORATION,
Petitioner,

v.

CELERITAS TECHNOLOGIES, LTD.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

RICHARD G. TARANTO
FARR & TARANTO
1850 M Street, NW
Suite 1000
Washington, DC 20036
(202) 775-0184

RICHARD S. FLORSHEIM
Counsel of Record
LARRY L. SHATZER II
FOLEY & LARDNER
Firstar Center
777 East Wisconsin Ave.
Milwaukee, WI 53202
(414) 271-2400

9888

QUESTION PRESENTED

Whether federal patent law allows the imposition under state law of liability and damages based substantially or entirely on the use of technology that is in the public domain, where there has been no voluntary assumption of any duty to pay for such use.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i
TABLE OF AUTHORITIES iii
OPINION BELOW 2
JURISDICTION 2
STATEMENT 2
1. Factual Background 2
2. Trial Court Proceedings 5
3. The Court of Appeals Decision 7
REASONS FOR GRANTING THE PETITION 10
CONCLUSION 22

TABLE OF AUTHORITIES

Cases	*Page*
Airborne Data, Inc. v. United States, 702 F.2d 1350 (Fed. Cir. 1983)	19
Allis-Chalmers Corp. v. Lueck, 471 U.S. 202 (1985)	19
Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979)	13, 14
BMW of North America, Inc. v. Gore, 517 U.S. 559 (1996)	16
Boggild v. Kenner Prods., 776 F.2d 1315 (6th Cir. 1985), *cert. denied*, 477 U.S. 908 (1986)	18
Boggild v. Kenner Prods., 853 F.2d 465 (6th Cir. 1988)	18
Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989)	*passim*
Brulotte v. Thys Company, 379 U.S. 29 (1964)	14
Chromalloy American Corp. v. Fischmann, 716 F.2d 683 (9th Cir. 1983)	17
Coats v. Merrick Thread Co., 149 U.S. 562 (1893)	12
Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964)	12
Gemveto Jewelry Co. v. Jeff Cooper, Inc., 800 F.2d 256 (Fed. Cir. 1986)	16
Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974)	9, 12, 13, 19
Lear v. Adkins, 395 U.S. 653 (1969)	8, 13
Meehan v. PPG Industries, Inc., 802 F.2d 881 (7th Cir. 1986), *cert. denied*, 479 U.S. 1091 (1987)	18
Metropolitan Edison Co. v. NLRB, 460 U.S. 693 (1983)	14
Pfaff v. Wells Electronics, Inc., No. 97-1130 (U.S. Nov. 10, 1998)	7, 13
Pitney Bowes, Inc. v. Mestre, 701 F.2d 1365 (11th Cir.), *cert. denied*, 464 U.S. 893 (1983)	17
Roboserve, Ltd. v. Tom's Foods, Inc., 940 F.2d 1441 (11th Cir. 1991)	17

Rototran Corp. v. Lake Shore Burial Vault Co., Inc., 553 F. Supp. 691 (E.D. Wis. 1982), *aff'd*, 712 F.2d 1214 (7th Cir. 1983) 16
Rototran Corp. v. Lake Shore Burial Vault Co., Inc., 712 F.2d 1214 (7th Cir. 1983) 16
San Diego Building Trades Council v. Garmon, 359 U.S. 236 (1959) 16
Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) 12
SI Handling Systems, Inc. v. Heisley, 753 F.2d 1244 (3rd Cir. 1985) 17
Sinclair v. Aquarius Electronics, Inc., 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1st Dist. 1974) 15
Span-Deck, Inc. v. Fab-Con, Inc., 677 F.2d 1237 (8th Cir.), *cert. denied*, 459 U.S. 981 (1982) 17
St. Regis Paper Co. v. Royal Industries, 552 F.2d 309 (9th Cir.), *cert. denied*, 434 U.S. 996 (1977) 17
Stilwell Development Inc. v. Chen, 11 U.S.P.Q.2d 1328 (C.D. Cal. 1989) 17
Universal Gym Equipment, Inc. v. ERWA Exercise Equipment Ltd., 827 F.2d 1542 (Fed. Cir. 1987) 15
Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc., 178 F. Supp. 655 (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960) 15
Wright v. Universal Maritime Service Corp., No. 97-889 (U.S. Nov. 16, 1998) 14

Constitution and Statutes

18 U.S.C. § 1831 21
§ 1832 21
§ 1839 21
28 U.S.C. § 1254(1) 2
35 U.S.C. § 102 3
§ 112 2

Other Materials

48 C.F.R. § 27.601 (1998) 21
§ 227.672 (1998) 21
Defense Federal Acquisition Regulations Supplement
§ 227.403-77 (a)(1) (1991) 21
§ 227.672 (1991) 21
H.R. Rep. 788, 104th Cong., 2d Sess. (1996) 21
M. Jager, *Trade Secrets Law* (1998) 4, 19
R. Milgrim, *Trade Secrets* (1998) 19
Petition for Certiorari, *Lehman v. Zurko*, No. 98-377,
67 U.S.L.W. 3299 (Nov. 3, 1998) 21
Restatement (Third) of Unfair Competition (1995) .. 19, 20
U.S. Department of Justice and Federal Trade Commission,
Antitrust Guidelines for the Licensing
of Intellectual Property (1995) 19
Uniform Trade Secrets Act,
14 U.L.A. (1990 & Supp. 1998) 20

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1998

No. 98-

ROCKWELL INTERNATIONAL CORPORATION,
Petitioner,

v.

CELERITAS TECHNOLOGIES, LTD.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

---

PETITION FOR A WRIT OF CERTIORARI

Rockwell International Corporation petitions for a writ of certiorari to review the judgment of the Federal Circuit upholding a $57 million damage award based on Rockwell's use of technology that was primarily, or exclusively, in the public domain. The ruling conflicts with the decisions of this Court, and of numerous other circuits, protecting the federal right to use public-domain technology (*e.g.*, *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989)) and, if left unreviewed, will cause substantial harm.[1]

---

[1]Petitioner Rockwell has no parent company and no subsidiaries other than wholly owned subsidiaries. *See* S. Ct. R. 29.6.

OPINION BELOW

The opinion of the court of appeals (Pet. App. 1a-17a) is reported at 150 F.3d 1354. The district court's post-verdict opinions and orders (Pet. App. 18a-50a) are not reported.

JURISDICTION

The judgment of the court of appeals was entered on July 20, 1998. Petitions for rehearing were denied on September 14, 1998. Pet. App. 51a-53a. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATEMENT

1. Factual Background

In 1993, Michael Dolan, a principal of respondent Celeritas, believed that he had invented a new technology for computer modems, using "deemphasis," that would improve the transmission of computer data over cellular telephones.[2] Dolan (with Celeritas as assignee) filed a patent application in July 1993. A patent was issued in late January 1995 containing (as required by 35 U.S.C. § 112) a full public disclosure of the technology claimed as the patentable invention. *See* C.A. Jt. App. A773-93 (Patent No. 5,386,590). As the Federal Circuit has now held, however, the patent was invalid as a matter of

---

[2]Ordinary analog cellular transmissions seek to eliminate a high-frequency hiss by boosting, later reducing, and then "clipping" the signals. These steps increase the clarity of voice transmissions but impair data transmissions. A process called "deemphasis" or "spectral shaping" manipulates the signal at the outset to reduce the losses of data. As one article described it, "[t]he theory and the effect are similar to the function of Dolby noise reduction in stereo tape recording and playback equipment." Bryan, "Data Over Cellular," BYTE 59, 60 (Sept. 1994), reprinted at C.A. Jt. App. 2876, 2877.

law because the claimed invention was not novel: even before the patent application, it had already been "described in a printed publication" (35 U.S.C. § 102)–namely, a 1991 article in a computer trade journal. Pet. App. 11a-15a.

Long before the patent's issuance, Celeritas had begun the usual process of seeking to license the technology to manufacturers. In September 1993, a few months after the patent application was filed, Celeritas held a meeting with petitioner Rockwell, which is the leading manufacturer of semiconductor chips for use in modems, to discuss Rockwell's potential interest in licensing. In order to make possible full discussion of the characteristics and potential benefits of the technology at issue, the parties entered into a nondisclosure agreement tendered by Celeritas. Pet. App. 65a-70a. That agreement states explicitly that the parties were not then agreeing to enter any licensing deal (they were only discussing the possibility): each party was free to "choose not to do business with the other." *Id.* at 69a (¶ 6.3).

The limited terms of the nondisclosure agreement are of central importance to the issues in this case. The agreement binds each party, for five years, not to disclose or to use any "Proprietary Information" except for the purpose of evaluating any prospective business arrangements between Celeritas and Rockwell. *Id.* at 67a (¶ 2(ii)). Critically, the agreement limits the scope of the covered "Proprietary Information" by stating that the term "shall not include information which . . . was in the public domain on the date hereof or comes into the public domain other than through the fault or negligence of the Receiving Party." *Id.* at 66a (¶ 1.3).[3] The obligation under the

---

[3]To reduce uncertainty about what information was covered, the agreement further limited the term "Propriety Information" to disclosed information that "is designated in writing or verbally (with

agreement, in short, covered information only insofar as it had not yet entered and did not later enter the "public domain," thus mirroring a standard-form agreement designed for just such prospective licensing discussions as took place here. 3 M. Jager, *Trade Secrets Law* App. E-2 (1998).

Discussions between Rockwell and Celeritas continued after September 1993. In March 1994, however, a division of AT&T began publicly selling a computer modem that incorporated the technology covered by the pending Celeritas patent application.[4] Later that month, Rockwell told Celeritas that it would not pay to license the technology. Rockwell then went on to develop modem chipsets that incorporated deemphasis technology–relying on its own research, including the reverse engineering of AT&T's publicly sold modem, and (according to the jury's finding, accepted below by Rockwell) on information received from Celeritas. Pet. App. 4a-5a.

---

written confirmation given within ten (10) days of such disclosure)." Pet. App. 66a (¶ 1.3). Aside from the information disclosed in the patent, the record is devoid of any written communications from Celeritas to Rockwell designating information as confidential.

[4]Several months later an article in a widely read computer magazine, BYTE (cited at note 2, *supra)*, specifically noted that the AT&T modem used deemphasis technology. C.A. Jt. App. A2877. At trial, a witness from Toshiba testified to industry knowledge of AT&T's use of the technology at the time. *Id.* at A165. As the Federal Circuit later stated, the "inventor" Dolan himself testified at trial that "the use of de-emphasis could have been discovered [from AT&T's modem] if it was being affirmatively pursued." Pet. App. 8a (discussing C.A. Jt. App. A231). Celeritas, in its amended complaint in this case, alleged as a fact that AT&T both used and disclosed Celeritas's technology. Pet. App. 60a (Amended Complaint ¶¶ 22, 23).

Rockwell began shipping its prototype chips in January 1995. By the time Celeritas's patent issued at the end of that month, Rockwell had sold 750 chipsets for a total of $23,570. C.A. Jt. App. A1060. Many chipsets were sold over the next two years (before Rockwell pulled the deemphasis technology from its product), but there is compelling evidence that the technology played a trivial role in those sales.[5]

2. Trial Court Proceedings

In the fall of 1995, Celeritas sued Rockwell for patent infringement (First Claim), misappropriation of trade secrets (Second Claim), and breach of contract (Third Claim). *See* Pet. App. 54a-64a (First Amended Complaint).[6] The trade-secret claim and contract claim rest on the identical basis: breach of the nondisclosure agreement. Thus, the operative paragraph of the Second Claim relies exclusively on breach of that contract as the sole basis for the alleged misappropriation, stating simply that "Rockwell agreed not to use or disclose Celeritas' proprietary technology, but has nevertheless done so in breach

---

[5]Large sales of new modem chipsets were driven by the change in the international standard for modems, doubling speeds from 14.4 to 28.8 kilobits per second. C.A. Jt. App. A665, A670. The deemphasis technology that was provided as part of those chipsets is useful only for the fraction of computer purchasers who wish to use a cellular connection, for which they needed a special computer-to-cellular cable. *Id.* at A163-64, A355, A668. That fraction was very small. Although Rockwell sold nearly 25 million chipsets prior to trial, sales of the needed cables were only ½ of one percent of that number–about 135,000. *Id.* at A668.

[6]A fourth cause of action, for intentional interference with Celeritas's business, was dropped at trial. In addition to Rockwell, the amended complaint named AT&T and its division as defendants. They were dismissed upon settlement with Celeritas in January 1996.

of this contract." *Id.* at 59a (¶ 19).[7] The Third Claim, for breach of contract, adds no new facts. It consists of two paragraphs–one simply incorporating the previous allegations of the amended complaint, the other claiming "lost opportunities and royalties." *Id.* at 61a-62a (¶ 31).

The jury found for Celeritas on all three claims. *See* C.A. Jt. App. A1637-39 (verdict form). It found the patent to be valid and infringed (First Claim) and awarded $57,658,000 in damages. Having so found, and never having been asked to make a separate determination of whether Rockwell used any technology other than the patented technology, the jury also found a breach of the nondisclosure agreement (Third Claim) and awarded the identical $57,658,000 in damages on that claim. (As the Federal Circuit noted, the damage awards for the patent and contract claims were equally based on what the jury concluded Rockwell would have paid–though never promised or offered to pay–as an up-front amount to license Celeritas's technology: the patent and contract awards both were "based on a hypothetical lump-sum paid-up license for the use of the proprietary technology in Rockwell's products." Pet. App. 5a.) The jury also found misappropriation of trade secrets (Second Claim) and awarded damages based on a finding that Celeritas's technology gave Rockwell a 21-month "head start" in developing its product. *Id.* On post-trial motions, the patent award (though not the identical contract award) was reduced. *Id.*

---

[7]Implicitly acknowledging that issuance of its patent (necessarily) disclosed its technology, Celeritas added that, "*[b]efore issuance of the [Celeritas] patent*," its technology was "kept secret." *Id.* at 59a (¶ 20) (emphasis added).

3. The Court of Appeals Decision

The court of appeals held that Rockwell had met its heavy burden of showing that the patent was invalid under Section 102 because the technology claimed as the invention had already been placed in the public domain through publication in prior art. Pet. App. 11a-15a.[8] The court of appeals, however, did not take any account of that holding (which meant that the jury had been wrong when it found that Celeritas's patent covered new, previously non-public technology) in reviewing the jury's awarding of contract damages identical to the patent damages. Indeed, the court upheld the contract award (*id.* at 6a-11a) even before discussing the validity of the patent (*id.* at 11a-15a). In upholding the contract award, moreover, the court discussed breach and damages separately, as if there were no relation between the issues.

As to breach, the court presumed that the jury had found (as required to find a breach under the contract's terms) that Rockwell had used *some* technology that was not in the public domain–notwithstanding the three events that placed some or all of the technology at issue in the public domain: the pre-1993 publications that invalidated Celeritas's patent; the March 1994 public sale of the AT&T modem; and the January 1995 issuance of the patent, with its required extensive technology disclosure. Pet. App. 6a-8a. Although the jury had evidently rested its contract award on its incorrect determination that the *patented* technology was not in the public domain (awarding identical patent and contract damages), the court of appeals let the breach-of-contract finding stand. It concluded that there was

---

[8] *See Pfaff v. Wells Electronics, Inc.*, No. 97-1130 (U.S. Nov. 10, 1998), slip op. 8 (Section 102 "exclud[es] ideas that are in the public domain from patent protection").

"substantial evidence" that Celeritas had disclosed to Rockwell certain unidentified "implementation details and techniques that went beyond the information disclosed in the patent." *Id.* The court also concluded that the jury could permissibly have found that the publicly sold AT&T modem had not placed all of the technology used by Rockwell in the public domain.[9]

Having thus upheld the finding that Rockwell had used some unspecified non-public technology, the court of appeals proceeded to uphold the damages award without making any effort to conform the damages award to the limited basis it had relied on to uphold the jury's finding that Rockwell used non-public technology. *Id.* at 9a-11a. Rockwell argued that basic causation principles, California law, and the "federal public policy" embodied in this Court's patent-law decisions required any damages award to be limited so as to exclude any "liability for use of product information after the product or the ideas embodied in the product enter the public domain."[10] The court

---

[9]The court of appeals concluded that the jury must have "implicitly found" that not all of the technology was "'readily ascertainable'" from the modem publicly sold by AT&T in March 1994. *Id.* at 8a. The court stated that there was "substantial evidence" to support such a finding, but it did not identify any such evidence. Instead, the court observed only that Dolan, who had testified (incorrectly) that his own "invention" was not in the public domain, had limited his admissions about the AT&T modem to the assertion that the technology would be readily ascertained by someone looking for it and possessing certain equipment. *Id.* The court did not point to any evidence that the relevant public would lack the equipment or refrain from looking for the technology, and it did not mention other evidence on this point. *See* note 4, *supra*.

[10]C.A. Reply Br. for Defendant-Appellant 15 (citing *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989), *Lear v. Adkins*, 395 U.S. 653 (1969), and *Kewanee Oil Co. v. Bicron*

of appeals, however, refused to insist on stripping out of the damages award any amounts the jury awarded for use of technology that was publicly disclosed–in the pre-1993 prior art that invalidated Celeritas's patent, in the AT&T modem publicly sold in March 1994, or in the January 1995 patent itself. Instead, the court upheld the $57 million damages award based on a hypothesized lump-sum royalty payment covering even the *patented* technology and extending for five years, 1995 through 1999. *Id.* at 10a. In particular, the court held that it was immaterial whether Rockwell's "head start" from its earlier access to Celeritas's technology was only a few months (so that, had Rockwell never spoken to Celeritas, it would have been perfectly free to use the technology after the period following public disclosure in the patent). Although the court accepted that such a limited head start period after public disclosure would set a strict outer limit on any liability for misappropriation of trade secrets, it held that such a limit was simply irrelevant to the breach-of-contract claim, notwithstanding that it rested on the identical basis–breach of the nondisclosure agreement. *Id.* at 10a-11a.[11]

Corp., 416 U.S. 470 (1974)); *see also id.* at 1 (arguing that Celeritas's argument invited the court of appeals "to disregard important principles of California law and federal patent law"); C.A. Brief for Defendant-Appellant 26-27 (arguing that, if Rockwell used any Celeritas technology, once it entered the public domain "Celeritas' remedy for such use (if any) would depend upon federal patent law, not California contract law"); *id.* at 27 (Celeritas's own publication of its technology in its patent meant that "Celeritas affirmatively chose to forego its contractual protection in favor of patent protection").

[11]Because Celeritas had agreed to accept only the highest of the available awards, the court of appeals ruled that the contract award made the trade-secret award unavailable, and it therefore did

REASONS FOR GRANTING THE PETITION

The Federal Circuit in this case upheld a $57 million compensatory damages award based substantially, if not entirely, on the use of public-domain technology where there was no agreement to pay for any such use. That ruling violates longstanding law affirming a federal right to use knowledge in the public domain. It also conflicts with other circuits' decisions and will work substantial public harm.

Whatever the degree of the jury award's dependence on public technology, the fact of that improper dependence is indisputable. Most starkly, the jury, in finding that Rockwell had breached its agreement by using technology not in the "public domain" (Pet. App. 66a), relied substantially, perhaps exclusively, on the "invention" claimed in the patent: the jury (incorrectly) found the patent valid, and its contract award was identical to its patent-infringement award. Yet the Federal Circuit, despite holding the patent invalid, refused to disturb the infected contract award, even while itself carefully avoiding any reliance on the claimed "invention" as evidence of non-public technology (because the prior-art publications that invalidated the patent had already placed the claimed "invention" in the public domain). Pet. App. 7a-8a. In addition, the jury's award imposed liability on Rockwell for its use of technology publicly disclosed in the issued patent for five years *after* its issuance. Yet the Federal Circuit, while accepting the public-domain character of all that was disclosed by issuance of the patent, refused to demand removal from the award of any

---

not reach the other issues raised challenging the soundness of that award. Pet. App. 15a-16a. In particular, it did not reach Rockwell's contention that even the 21-month "head start" period found by the jury–itself well short of the 5-year period covered by the contract award–was unsupported by the evidence.

compensation for use after the date when Rockwell could have used the disclosed technology if it had begun when the patent issued (*i.e.*, after the "head start" period). Nor, finally, did the Federal Circuit require any judgment against Rockwell to exclude liability for use of whatever technology Rockwell could have readily ascertained from the public sale of the AT&T modem in March 1994. In each of those ways, the result approved by the Federal Circuit is an award that, in whole or in large part, is for use of public domain technology.

The Federal Circuit's upholding of that award flies in the face of this Court's consistent holdings, most recently in *Bonito Boats*, that the federal patent laws grant an affirmative right to use technology that is in the public domain where, as here, no voluntary assumption of a duty to pay for public technology exists. This principle necessarily constrains not only whether any liability may be imposed at all, but also the permissible bases and extent of damages. If a $1 million liability award is improper when, in its entirety, it compensates for use of public-domain technology, a $57 million award is equally improper when (say) $56 million of it compensates for use of public-domain technology: each case involves an impermissible imposition for the exercise of a federal right. The Federal Circuit, by artificially segregating the liability and damages inquiries, reached a decision that is simply irreconcilable with this Court's strict enforcement of the public domain principle. Where, as here, there is no agreement to pay for use of public technology, federal patent law prohibits the imposition of damages without stripping out amounts attributable to such use.

The Federal Circuit's holding conflicts not only with the decisions of this Court but with the decisions of other circuits that give strict effect to the public domain principle, including decisions that require, in the context of a voluntary royalty agreement, that the parties clearly segregate any payments to use technology that enters the public domain through the patent

process. The Federal Circuit's ruling also warrants review because of its harmful practical impact. By allowing a massive award of damages to stand without any limitation to protect the unencumbered right to use technology in the public domain, the Federal Circuit's decision seriously chills the economically essential process of technology-licensing negotiation: mere entry into such negotiations now raises a grave risk of losing the pre-existing right to use public-domain knowledge while being subjected to what amounts to an involuntary license. The adverse effect on the vital principle protecting freedom to use technology in the public domain is likely to be particularly great given the central role of the Federal Circuit in patent cases, where this issue is especially likely to arise. This Court should grant the petition and require that liability awards be properly limited to ensure that they not force compensation for the use of public technology.

1. In *Bonito Boats*, the Court traced the long history of the recognition "that the purposes behind the Patent Clause are best served by free competition and exploitation of either that which is already available to the public or that which may be readily discerned from publicly available material." 489 U.S. at 150. As early as 1893, the Court recognized that technology disclosed in a patent passes into the public domain upon expiration, holding "that after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law." *Id.* at 152 (citing *Coats v. Merrick Thread Co.*, 149 U.S. 562 (1893)). The Court subsequently extended the principle from the context of an expired patent to "publicly known design and utilitarian ideas which were unprotected by patent" in the first place. *Id.* at 152 (citing *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964)). As the Court later explained, "[a]t the heart of *Sears* and *Compco* is the conclusion that the efficient

operation of the federal patent system depends upon substantially free trade in publicly known, unpatented design and utilitarian conceptions." *Id.* at 156.

This Court's decision in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), underscores the commitment to protecting freedom to use technology insofar as it is in the public domain. The Court there upheld the general proposition "that state protection of trade secrets did not operate to frustrate the achievement of the congressional objectives served by the patent laws." *Bonito Boats*, 489 U.S. at 155. But, as the Court later explained, it was "critical" to the holding of *Kewanee* that a trade secret is not in the public domain: "because the public awareness of a trade secret is by definition limited, . . . 'the policy that matter once in the public domain must remain in the public domain is not incompatible with the existence of trade secret protection.'" *Id.* (quoting *Kewanee*, 416 U.S. at 484). In fact, the trade-secret injunction in *Kewanee* by its terms lasted only until public disclosure. 416 U.S. at 473.

In *Bonito Boats*, the Court reiterated its recognition "that ideas once placed before the public without the protection of a valid patent are subject to appropriation without significant restraint" (489 U.S. at 156 (citing *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979))) and "'that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent'" (*id.* at 159-60 (quoting *Lear, Inc. v. Adkins*, 395 U.S. 653, 668 (1969))). *See also Pfaff v. Wells Electronics, Inc.*, No. 97-1130 (U.S. Nov. 10, 1998), slip op. 9 ("[t]he patent laws . . . protect the public's right to retain knowledge already in the public domain"). Applying that principle, and pointedly disagreeing with the Federal Circuit's attempt to narrow it (489 U.S. at 163-64), the Court in *Bonito Boats* invalidated a state law that restricted competitors' freedom to engage in reverse engineering of products freely

exposed to the public in the marketplace, thus "substantially limiting the ability of the public to exploit an otherwise unprotected idea." *Id.* at 163. In so holding, the Court took care to warn against condemnation of conduct based on "[a]ppending the conclusionary label 'unscrupulous' to such competitive behavior" without careful examination of the conduct to protect the "legitimate competitive activity" of exploiting knowledge in the public domain. *Id.* at 164 (internal quotation marks omitted).

The strength of the public-domain principle is reflected in the fact that it imposes some significant restrictions even when parties enter into contracts promising payment for use of technology in the public domain. Thus, the Court long ago held that when a patent has issued, a contract to pay royalties under a patent license becomes unenforceable after the expiration of the patent (because the patented technology becomes "public property" and enters "the public domain" after expiration), at least if the promise to pay for post-expiration use is not clearly separated from the patent license. *Brulotte v. Thys Company*, 379 U.S. 29, 31, 32-33 (1964). And in *Lear v. Adkins*, based on the recognition that "federal law requires[] that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent," the Court held that a patent royalty contract could not be enforced from the time the patent is challenged as invalid. 395 U.S. at 668, 668-74.

Like other rights protected by federal statute, of course, the right to use public-domain knowledge can, in some circumstances, be waived by contract, but only if "the undertaking is 'explicitly stated,'" *i.e.*, "clear and unmistakable." *Metropolitan Edison Co. v. NLRB*, 460 U.S. 693, 708 (1983); *see Wright v. Universal Maritime Service Corp.*, No. 97-889 (U.S. Nov. 16, 1998), slip op. 9. Thus, in *Aronson*, this Court upheld the enforcement of a party's express contractual obligation to pay for the continued use of a design regardless of

whether a patent was later obtained, where the party undertook that payment obligation voluntarily and knowing that a patent was being sought, and where the patent never issued and the design "entered the public domain as a result of the manufacture and sale of [the product] under the contract." 440 U.S. at 263. That limitation on federal protection, however, has no application to this case because the essential premise is missing. Under the express terms of the nondisclosure agreement at issue, Rockwell undertook no duty–indeed it expressly disclaimed any duty–to pay for or to refrain from use of material that was, at that time or later, in the public domain. Given the absence of any contractual waiver, the strict principle of patent policy protecting the right to use public-domain knowledge, as so extensively elaborated in *Bonito Boats*, applies undiluted in this case.[12]

The Federal Circuit squarely violated that principle in upholding a $57 million award that is based largely if not entirely on compensation for use of technology that was in the public domain–whether through the prior art that invalidated Celeritas's patent (which the jury incorrectly found valid), through the technology disclosed in the patent, or through the public sale of AT&T's modem to the extent the technology

---

[12]As noted at pages 17-18, *infra*, a number of circuits stress that *Aronson* depends not only on a clear contractual waiver but on other conditions as well, such as the fact (also distinguishing this case) that no patent issued. Although some courts have taken a broader view of *Aronson*, there is no dispute about the threshold requirement of an unmistakable waiver. *See Universal Gym Equipment, Inc. v. ERWA Exercise Equipment Ltd.*, 827 F.2d 1542 (Fed. Cir. 1987); *Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*, 178 F. Supp. 655 (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960); *Sinclair v. Aquarius Electronics, Inc.*, 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1st Dist. 1974).

could be "readily discerned" from it (*Bonito Boats*, 489 U.S. at 150). Rockwell had a federal right to use knowledge that was in or came into the public domain. Under *Bonito Boats* and its predecessors, any effect on Celeritas from exercise of that right by Rockwell, which did not waive it by promising otherwise, cannot be the basis for state-law liability or restriction. The *Bonito Boats* principle precludes an undifferentiated award like the one in this case. Such an award must be set aside and (if the evidence warrants) a new trial must be held to ensure that any liability judgment and damages award exclude reliance on use of public-domain technology.[13]

2. The Federal Circuit's decision is inconsistent with the decisions of other circuits that have repeatedly affirmed and applied the public-domain principle. Thus, the Seventh Circuit in *Rototran Corp. v. Lake Shore Burial Vault Co., Inc.*, 712 F.2d 1214 (1983), held that where the technology at issue had been disclosed in public, the federal patent law principle of *Sears* precluded protection of the technology in an action brought for breach of contract. *Id.* at 1215; *see Rototran Corp. v. Lake Shore Burial Vault Co., Inc.*, 553 F. Supp. 691, 693

---

[13]The Federal Circuit itself has held–in a decision that this Court in *Bonito Boats* specifically cited with approval (489 U.S. at 165)–that an injunctive remedy must be narrowed to ensure that it does not restrict the defendant's right to copy publicly available but unpatented articles. *Gemveto Jewelry Co. v. Jeff Cooper, Inc.*, 800 F.2d 256, 259 (Fed. Cir. 1986) (discussing *Sears* and *Compco*). Damages relief, as an after-the-fact imposition based on exercise of the same federal right, must be limited by the same principle. *See San Diego Building Trades Council v. Garmon*, 359 U.S. 236, 247 (1959) ("[R]egulation can be as effectively exerted through an award of damages as through some form of preventive relief. The obligation to pay compensation can be, indeed is designed to be, a potent method of governing conduct and controlling policy."); *BMW of North America, Inc. v. Gore*, 517 U.S. 559, 572 n.17 (1996).

(E.D. Wis. 1982). The Eleventh Circuit in *Roboserve, Ltd. v. Tom's Foods, Inc.*, 940 F.2d 1441 (1991), similarly held that where the technology had entered the public domain by public sale of machines, "the federal patent laws preemptively prohibit a trade secret claim." *Id.* at 1455.[14]

A number of decisions apply the principle even in its most challenging context, where it can override voluntary promises to pay for technology. In *St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309 (9th Cir.), *cert. denied*, 434 U.S. 996 (1977), the Ninth Circuit held that when a royalty agreement inseparably intermingled patented technology and other "know-how," the whole contract was unenforceable once the patent was held invalid. *Id.* at 315. Subsequently, in *Chromalloy American Corp. v. Fischmann*, 716 F.2d 683 (9th Cir. 1983), the Ninth Circuit, discussing the line between *Aronson* and *Lear*, required that any compensation for invalidly patented technology and non-patent technology be separated. *Id.* at 686. In so holding, it relied not only on *St. Regis* but on *Span-Deck, Inc. v. Fab-Con, Inc.*, 677 F.2d 1237 (8th Cir.), *cert. denied*, 459 U.S. 981 (1982), which held a royalty contract covering a later-invalidated patent unenforceable in full because "no allocation of the percentage of royalties attributable to trade secrets and know-how is provided" to segregate the amounts for the invalidly patented technology *Id.* at 1247. In *Pitney*

---

[14]*See also SI Handling Systems, Inc. v. Heisley*, 753 F.2d 1244, 1266 (3d Cir. 1985) (suggesting, with citation to *Kewanee*, that it would be "necessary" to terminate a trade-secret injunction once the trade secrets were "publicly disclosed," with addition of "lead time," *i.e.*, a head start period); *Stilwell Development Inc. v. Chen*, 11 U.S.P.Q.2d 1328, 1331 n.7 (C.D. Cal. 1989) ("The law is quite clear that absent federal protection under the patent or copyright laws, matters in the public domain may not be protected by state law.") (citing *Bonito Boats*, *Sears*, and *Compco*).

Bowes, Inc. v. Mestre, 701 F.2d 1365 (11th Cir.), *cert. denied*, 464 U.S. 893 (1983), the Eleventh Circuit, discussing *Brulotte*, *Aronson*, and *Kewanee*, likewise held a royalty agreement unenforceable in its entirety once the patent expired because the agreement did not separately allocate a fee for any trade secrets covered by the agreement. *Id.* at 1372-73. The Sixth Circuit in *Boggild v. Kenner Prods.*, 776 F.2d 1315 (6th Cir. 1985), *cert. denied*, 477 U.S. 908 (1986), followed the previous decisions and reached the same result. *Id.* at 1317-21; *see Boggild v. Kenner Prods.*, 853 F.2d 465, 467 (6th Cir. 1988). So did the Seventh Circuit in *Meehan v. PPG Industries, Inc.*, 802 F.2d 881 (7th Cir. 1986), *cert. denied*, 479 U.S. 1091 (1987), invaliding a royalty agreement in the absence of "some provision that distinguishes between patent royalties and trade secret royalties." *Id.* at 886.

In all of these decisions, the courts of appeals have insisted that liability not be imposed for use of technology in the public domain. Even where a party enters into a contract promising to pay for technology, the courts have applied that principle by refusing to enforce those promises without a clear separation of any technology that was in the public domain (through an invalid or expired patent). The Federal Circuit's decision conflicts with the fundamental principle underlying all of those decisions. The right to use knowledge in the public domain should not depend on whether a claim like Celeritas's is brought as part of a patent case, and thus goes to the Federal Circuit, or is brought independently, and thus goes to a regional circuit (or state court). This Court should eliminate the discrepancy and bring the Federal Circuit into line.

3. The Federal Circuit's decision will substantially deprive the *Bonito Boats* principle of its intended effect for a vast range of cases (including but not limited to virtually all pre-patent-application situations) where someone enters into licensing discussions about what is claimed to be valuable, still-

secret, new technology. Under the Federal Circuit's decision, the principle requiring that liability be limited to compensating for use of non-public technology would be rendered inapplicable by the simple maneuver of pleading breach of contract. That technique will be readily available in the typical trade-secret case where–precisely as in this case–an express or implied-in-fact contract is the basis for the duty of confidentiality underlying a claim of trade-secret misappropriation.[15] The result of the Federal Circuit's decision is thus to "elevate form over substance and allow parties to evade" longstanding federal policy "by relabeling their" claims. *Allis-Chalmers Corp. v. Lueck*, 471 U.S. 202, 211 (1985); *see id.* at 219.

The decision below erects a major new impediment to activities that are critical to the modern economy. Most obviously, the decision will impair the freedom to exploit public knowledge. The result will be to impede technological progress and economic competition, which, as this Court explained in *Bonito Boats*, depend vitally on the freedom to use technology that is in the public domain.

Just as surely, the Federal Circuit's ruling also impairs the economically vital process of licensing intellectual property. The owners of intellectual property commonly must license its use to combine it with other intellectual property, with manufacturing capabilities, with marketing, and with many other factors of production in order to make a commercially available product. *See, e.g., Kewanee*, 416 U.S. at 486 (stressing importance of licensing to make "efficient use of existing

---

[15] *See, e.g.*, Restatement (Third) of Unfair Competition § 41 (first basis for confidentiality is "express promise"); *Kewanee*, 416 U.S. at 475; *Airborne Data, Inc. v. United States*, 702 F.2d 1350, 1352-53 (Fed. Cir. 1983) (trade-secret misappropriation claim against United States sounds in contract); 1 R. Milgrim, *Trade Secrets* §§ 3.02, 4.02 (1998); 1 M. Jager, *Trade Secrets Law* § 4.01 (1998).

manufacturing and marketing structures"); U.S. Department of Justice and Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property § 2.3 (1995). The Federal Circuit's decision will dramatically chill the willingness of manufacturers and other firms to enter into discussions with those who claim to have new technology for potential licensing, because the mere entry into such discussions–conducted under a standard-form agreement to refrain from using disclosed matter precisely and only to the extent it is and remains outside the public domain–creates a serious risk of mammoth damages. Under the Federal Circuit's ruling, a manufacturer is made radically worse off in its ability to use publicly available knowledge–here, *e.g.*, the "deemphasis" techniques that were disclosed in the prior art that invalidated Celeritas's patent, in the patent itself, or in the publicly sold product of AT&T–simply by virtue of entering into discussions to learn about what someone asserts to be valuable, still-secret, new technology, without ever entering into any license agreement. The result is to chill such discussions and make technology licensing more difficult, to the detriment of the economy.

The importance of maintaining the freedom to use technology that comes into the public domain is confirmed by the now-prevalent recognition that both injunctive and damages remedies must be brought to an end (after a "head start" period) once a trade secret enters the public domain (through actions other than the defendant's).[16] It is further confirmed by the

---

[16]*See* Restatement (Third) of Unfair Competition § 44 & Comment f (adopting head-start rule for injunctions, and noting that "[t]he issuance of a patent or other public disclosure renders the disclosed information ineligible for continued protection as a trade secret"), § 45 Comment h (same head-start rule for damages) (1995); Uniform Trade Secrets Act, 14 U.L.A. 433 (1990 & Supp. 1998) (adopted in 42 jurisdictions) (§ 2 & Comment; § 3 & Comment).

Federal Government's policies even outside the patent laws. When Congress in 1996 enacted new federal criminal proscriptions on economic espionage and theft of trade secrets (18 U.S.C. §§ 1831, 1832), it carefully limited the measures to apply only to information that is not "generally known to, and not . . . readily ascertainable through proper means by, the public" (18 U.S.C. § 1839 (definitions)). *See* H.R. Rep. 788, 104th Cong., 2d Sess. 13 (1996). Similarly, the Government has made clear in its procurement regulations that it may not be charged for use of information that is "in the public domain." 48 C.F.R. § 227.672 (1998); *see, e.g., id.* § 27.601 (1998); Defense Federal Acquisition Regulations Supplement § 227.403-77(a)(1) (1991) ("The Government shall have unlimited rights in . . . information which is in the public domain . . . ."); *id.* § 227.672 (1991).[17] The Federal Circuit's decision in this case, if it stands, will produce what is thus recognized to be a substantial harm to the public interest by creating a new risk of massive liability for use of technology that is in the public domain.

---

[17]In a similar vein, the Government recently explained to this Court that patents whose issuance is improper because they claim (for the patentees) technology that is actually in the public domain "retard . . . progress, [and] stifle technological and economic competition." Petition for Certiorari, *Lehman v. Zurko*, No. 98-377, at 20, *cert. granted*, 67 U.S.L.W. 3299 (Nov. 3, 1998).

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

RICHARD G. TARANTO
FARR & TARANTO
1850 M Street, NW
Suite 1000
Washington, DC 20036
(202) 775-0184

RICHARD S. FLORSHEIM
Counsel of Record
LARRY L. SHATZER II
FOLEY & LARDNER
Firstar Center
777 East Wisconsin Ave.
Milwaukee, WI 53202
(414) 271-2400

November 23, 1998

APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

97-1512,-1542

CELERITAS TECHNOLOGIES, LTD.,
Plaintiff/Cross-Appellant,

v.

ROCKWELL INTERNATIONAL CORPORATION,
Defendant-Appellant.

DECIDED: July 20, 1998

Before MAYER, *Chief Judge,* MICHEL and LOURIE, *Circuit Judges.*

LOURIE, *Circuit Judge.*

Rockwell International Corporation appeals from the decision of the United States District Court for the Central District of California denying Rockwell's motions for judgment as a matter of law and for a new trial following a jury verdict that Rockwell willfully infringed Celeritas Technologies, Ltd.'s patent, misappropriated its trade secrets, and breached a non-disclosure agreement relating to the protected subject matter. *See Celeritas Techs., Ltd v. Rockwell Int'l Corp.,* 95-CV-6371 (May 30, 1997). Because substantial evidence supports the jury's verdict on the contract claim, we affirm the court's ruling with regard to both liability and damages on that claim. Because the claims of the patent have been shown to be anticipated as a matter of

law, we reverse the denial of Rockwell's motion for JMOL regarding patent validity and direct entry of judgment for Rockwell on the patent claim.

Celeritas cross-appeals from the judgment, arguing that the district court should have added exemplary damages for misappropriation to the contract damages award. Because the district court did not err in determining that a stipulation precluded a recovery on more than one claim, we affirm the entry of judgment solely on the contract claim.

BACKGROUND

On July 28, 1993, Michael Dolan filed a patent application for an apparatus for increasing the rate of data transmission over analog cellular telephone networks. The resulting patent, U.S. Patent 5,386,590, assigned to Celeritas, issued on January 31, 1995 with two claims. As described in the patent, a conventional analog cellular communications system suffers from noise that the listener hears as a high frequency hiss. Analog cellular networks combat this noise by boosting the high frequency components of the transmitted signal (typically a speaker's voice) and then decreasing these components at the receiving end. From the listener's perspective, this pre-emphasis at the transmit end and de-emphasis at the receiving end has minimal effect on the sound of a speaker's voice. The de-emphasis on the receiving end, however, reduces the high frequency hiss and therefore increases the fidelity of the cellular communications channel.

A limiter circuit then "clips" the top of signals having high amplitudes so that the transmitted signal stays within an established range. The combined effect of the pre-emphasis and limiter circuits is substantially imperceptible in voice

communication; however, it significantly impairs the transmission of data across the network.

The claimed invention overcomes the problem of distortion induced by the pre-emphasis and limiter circuits found in conventional analog cellular communications systems. The patent claims an apparatus that counteracts the adverse effects of the pre-emphasis and limiter circuits by de-emphasizing the data signal before presenting it to the cellular network. Claim 2, which is representative, reads as follows:

> An apparatus for increasing the data output rate from a transmit modem in a duplex analog radio communication system having a single-carrier data signal, comprising:
>
> a radio transmitter which receives said single-carrier data signal, said radio transmitter including a pre-emphasizer that increases the amplitudes of components of said single-carrier data signal in the range of 1,000 Hz to 3,000 Hz, said radio transmitter further including a limiter that limits the amplitudes of said single-carrier data signal;
>
> a transmit modem which provides said single-carrier data signal as an input signal to said radio transmitter, said transmit modem encoding digital data onto said input signal as a plurality of modulation signal components, said transmit modem *including a spectral shaper* which selectively reduces amplitudes of said modulation signal components at higher frequencies to cause said input signal from said modem to said radio transmitter to have lower amplitudes at higher frequencies than at lower frequencies to reduce the effect of said limiter on said input signal.

The spectral shaper recited in the claim performs the de-emphasis function.

In September 1993, Dolan and other officials of Celeritas met with representatives from Rockwell to demonstrate their propriety de-emphasis technology. Rockwell is the leading manufacturer of modem "chip sets" which contain the core functions of commercial modems, including the modulation function where de-emphasis is performed. The parties entered into a non-disclosure agreement (NDA), which covered the subject matter of the meeting and provided in pertinent part that Rockwell "shall not disclose or use any Proprietary Information (or any derivative thereof) except for the purpose of evaluating the prospective business arrangements between Celeritas and Rockwell."

The agreement provided that proprietary information "shall not include information which . . . was in the public domain on the date hereof or comes into the public domain other than through the fault or negligence of [Rockwell]." Furthermore, the agreement contained the following paragraph:

> *Injunctive Relief.* Celeritas and Rockwell acknowledge that the extent of damages in the event of the breach of any provision of this Agreement would be difficult or impossible to ascertain, and that there will be available no adequate remedy at law in the event of any such breach. Each party therefore agrees that in the event it breaches any provision of this Agreement, the other party will be entitled to injunctive or other equitable relief, in addition to any other relief to which it may be entitled. The parties hereby waive any requirement for the posting of a bond or other security in connection with the granting of injunctive relief.

In March 1994, AT & T Paradyne began to sell a modem that incorporated de-emphasis technology. In that same month, Rockwell informed Celeritas that it would not license the use of Celerita's proprietary technology, and concurrent-

ly began a development project to incorporate de-emphasis technology into its modem chip sets. Significantly, Rockwell did not independently develop its own de-emphasis technology, but instead assigned the same engineers who had learned of Celeritas's technology under the NDA to work on the de-emphasis development project. In January 1995, Rockwell began shipping its first prototype chip sets that contained de-emphasis technology. By the time of trial in 1997, Rockwell's sales were surpassing its projections.

On September 22, 1995, Celeritas sued Rockwell, alleging breach of contract, misappropriation of trade secrets, and patent infringement. In order to simplify the trial and avoid a duplicative recovery, Celeritas stipulated that it would accept the highest award under the three independent theories. The jury returned a verdict for Celeritas on each of the three theories, awarding Celeritas $57,658,000 each on the patent infringement and breach of contract claims, and $26,850,000 each in compensatory and exemplary damages on the trade secret misappropriation claim. The contract and patent infringement damages were based on a hypothetical lump-sum paid-up license for the use of the proprietary technology in Rockwell's products. The misappropriation damages were based on a finding that Celeritas's proprietary technology gave Rockwell a twenty-one month "head start" in its product development. After Rockwell moved for JMOL on liability and for a new trial on damages, the court concluded that the patent infringement award erroneously included a royalty on post-judgment sales; the parties then agreed to a remittitur that reduced the award to $17,-484,160, which was doubled to $34,968,320 in light of a finding of willful infringement. That award reflected multiplying a royalty rate by Rockwell's own 1994 projections of estimated sales through the last day of trial.

The court then entered judgment awarding Celeritas $57,658,000 for breach of contract, $85,820.05 in costs,

and $900,000 in attorney fees under 35 U.S.C. § 285 (1994) (court may award prevailing party attorney fees in an exceptional patent case). The court denied Rockwell's remaining motions. Rockwell now appeals and Celeritas cross-appeals to this court. We have jurisdiction under 28 U.S.C. § 1295 (a)(1)(1994).

DISCUSSION

On appeal from a judgment denying a motion for JMOL, we reapply the standards used by the district court in ruling on the motion. *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1454, 46 USPQ2d 1169, 1173 (Fed. Cir. 1998) (in banc); *Garter-Bare Co. v. Munsingwear, Inc.*, 723 F.2d 707, 709, 221 USPQ 751, 752 (9th Cir.1984). Following a jury trial, an appellant "must show that the jury's findings, presumed or express, are not supported by substantial evidence or, if they were, that the legal conclusion(s) implied from the jury's verdict cannot in law be supported by those findings." *Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 893, 221 USPQ 669, 673 (Fed. Cir. 1984) (citation omitted). We review the denial of a motion for a new trial for an abuse of discretion. *See DMI, Inc. v. Deere & Co.*, 802 F.2d 421, 427, 231 USPQ 276, 280 (Fed. Cir. 1986); *Landes Constr. Co. v. Royal Bank of Canada*, 833 F.2d 1365, 1371 (9th Cir. 1987).

A. Breach of the NDA

Rockwell first argues that the district court erred by denying its motion for JMOL on the breach of contract claim. Citing the prior art submitted to the United States Patent and Trademark Office (PTO) by Celeritas, Rockwell argues that the evidence at trial clearly demonstrates that the de-emphasis technology disclosed to Rockwell was already in the public domain. Even if the technology were proprie-

tary at the time of disclosure, Rockwell argues, the technology had entered the public domain before Rockwell used it, concededly no later than March 1994. Specifically, Rockwell asserts that AT & T Paradyne had already placed the technology in the public domain through the sale of a modem incorporating de-emphasis technology (''the modem''). Rockwell asserts that the technology was ''readily ascertainable'' because any competent engineer could have reverse engineered the modem. Rockwell further argues that any confidentiality obligation under the NDA regarding de-emphasis technology was extinguished once the '590 patent issued in January 1995.

Celeritas responds that substantial evidence supports the jury's verdict that Rockwell used its proprietary information. Celeritas argues that in order for a trade secret to enter the public domain in California, it must actually have been ascertained by proper means, and not merely have been ascertainable. Celeritas maintains that, in any event, the only evidence at trial supports the jury's implicit finding that the information was not readily ascertainable from inspection of the modem. Celeritas also argues that the issuance of its patent in 1995 is immaterial because Rockwell had already breached the agreement by using its proprietary information in 1994.

We agree with Celeritas that substantial evidence supports the jury's conclusion that Rockwell breached the NDA. The jury implicitly found that the information given to Rockwell by Celeritas was proprietary. *See Perkin-Elmer Corp.*, 732 F.2d at 893, 221 USPQ at 672-73 (stating that ''the law presumes the existence of findings necessary to support the verdict the jury reached''). Unrebutted testimony established that Celeritas disclosed to Rockwell implementation details and techniques that went beyond the information disclosed in the patent. Thus, even if every detail disclosed in the patent were in the prior art, a fact never alleged by Rockwell, that

fact would not undermine the jury's conclusion that Celeritas revealed proprietary information to Rockwell which it then used in developing its modem chip sets. Accordingly, Rockwell's reliance on the prosecution history of the '590 patent and the prior art submitted to the PTO is misplaced.

The jury also implicitly found that the technology had not been placed in the public domain by the sale of the modem. California law appears somewhat unsettled regarding whether a trade secret enters the public domain when it is "readily ascertainable" or whether it must also be "actually ascertained" by the public. *Compare ABBA Rubber Co. v. Seaquist,* 235 Cal. App. 3d 1 (1991) (holding that a trade secret is protectable if it has not yet been ascertained by others) *with American Paper & Packaging Products, Inc. v. Kirgan,* 183 Cal. App. 3d 1318 (1986) (suggesting that a trade secret is not protectable if readily ascertainable by others). Because the judgment is supportable under either standard, we need not attempt to resolve this issue of state law. Suffice it to say that substantial evidence supports a finding that the technology implementing the de-emphasis function in the modem was not "readily ascertainable." In fact, Dolan's testimony, the only evidence cited by Rockwell, belies its contentions. In the very passage cited by Rockwell, Dolan stated that (1) a spectrum analyzer would be needed to discover the de-emphasis technology, (2) most engineers that he talked to did not have spectrum analyzers, and (3) only if an engineer had a spectrum analyzer and knew what to look for could the engineer discover that the modem had de-emphasis technology. His express caveat that the use of de-emphasis could have been discovered it if was being affirmatively pursued is not an admission that the technology would be "readily ascertainable." Because substantial evidence supports the conclusion that the information disclosed to Rockwell had not entered the public domain before its unauthorized use by

Rockwell, the court did not err in denying Rockwell's motion by JMOL regarding its breach of the NDA.

B. Damages for breach of the NDA

Rockwell argues that the jury's damage award is not sustainable under California contract law and therefore that the district court abused its discretion by not ordering a new trial on contract damages. According to Rockwell a new trial is justified because (1) the contract expressly excludes damages based on a royalty bearing agreement, (2) the damage award is not directly related to any harm caused by the breach, and (3) Rockwell's liability for breach ended once the information entered the public domain.

Rockwell's first argument is without merit. The contract expressly provides that because damages *may be difficult to calculate,* injunctive relief is available. It does not preclude an award of damages. The clause providing for injunctive relief in fact clearly and unambiguously provides for an injunction "in addition to any other relief to which it may be entitled." The standard remedy for breach of contract is, of course, damages. Rockwell also relies on the contract definition of "proprietary information" which specifically excludes information that comes into the public domain. This contract provision clearly allows Rockwell to use information that is proprietary at the time of contracting only after it enters the public domain. It cannot be reasonably construed as relieving Rockwell of liability for use made of proprietary information before it enters the public domain.

Rockwell's second argument is also without merit. Celeritas was undoubtedly harmed. It is in the business of licensing its technology. Celeritas entered into the NDA with Rockwell with the reasonable expectation that Rockwell would compensate it for any use made of the disclosed information. This expectation was the motivating factor for

Celeritas to share its knowledge with Rockwell. After Celeritas disclosed its proprietary technology to Rockwell, Rockwell was faced with two legitimate choices: it could have used the technology and entered into a licensing agreement with Celeritas or it could have refrained from using the technology. It chose instead to use the technology without compensating Celeritas. To compensate Celeritas for the breach, the jury properly determined the license fee Rockwell would have paid had it not breached the agreement.

As to quantum, the amount of the damage award is far from speculative. The evidence established that lump-sum paid-up licenses based on projected royalties were common in the industry. Celeritas's damages expert testified as to a reasonable royalty rate based on the past licensing practices of Celeritas, Rockwell, and others in the modem business. The expert then determined the lump-sum amount Rockwell would have paid by multiplying the royalty rate by Rockwell's 1994 sales projections for the accused devices and then discounting the total to net present value. By adopting this lump-sum amount as the proper measure of damages, the jury implicitly accepted the expert's methodology.

Rockwell's third argument confuses the remedy for breach of contract with California's statutory remedies for misappropriation of trade secrets. It may be true that in the absence of a contract, liability for Rockwell's misappropriation of Celeritas's trade secrets may be statutorily limited to the "head start" period. *See* Cal. Civ. Code § 3426.3 (West 1997) ("A complainant may recover damages for the actual loss caused by misappropriation. . . . If neither damages nor unjust enrichment caused by misappropriation are provable, the court may order payment of a reasonable royalty for no longer than the period of time the use could have been prohibited."). However, liability for breach of contract is not so limited.

Celeritas's damages may include that which Rockwell might have paid for use of the technology at the time of the breach in 1994 if it had chosen not to breach the contract. At that time, it did not know what its actual sales figures would be or that the '590 patent would issue less than one year later, or whether it would issue at all. Given Rockwell's desire to incorporate the technology into its products and the uncertainty as to future events, the methodology used by the expert and implicitly adopted by the jury was not improper. There was substantial evidence to support the jury's determination that Rockwell would have accepted a lump-sum paid-up license based on its forecasts had it not breached the contract and to support the jury's conclusion as to quantum. Of course, the jury did not know what licensing arrangement might have been worked out in March 1994, but such uncertainty does not bar contract recovery.

> Damages for breach of contract must be clearly ascertainable. However, where the fact of damage has been established, the precise amount of the damage need not be calculated with absolute certainty. As long as there is available a satisfactory method for obtaining a reasonably proximate estimation of the damages, the defendant whose wrongful act gave rise to the injury will not be heard to complain that the amount thereof cannot be determined with mathematical precision.

DuBarry Int'l, Inc. v. Southwest Forest Indus., Inc., 231 Cal. App. 3d 552, 562 (1991) (quotation marks and citations omitted). Accordingly, the district court's denial of Rockwell's motion for a new trial on damages for Rockwell's breach of contract is affirmed.

C. Patent Validity

The district court awarded Celeritas attorney fees under 35 U.S.C. § 285 as the prevailing party in an exceptional

patent case. Rockwell argues that the infringement verdict, which is the basis for the award, cannot stand and that the district court erred by not granting its motion for JMOL on the issue of patent invalidity. Rockwell asserts that the claims of the patent are invalid as anticipated by either of two references.

One prior art reference cited by Rockwell was an article published in 1991 by the Telebit Corporation entitled, "The Static Characteristics of Analog Cellular Radio Channels and Their Effects Upon Data Transmission," CCITT Study Group XVII, Delayed Contribution D 136, Geneva, Oct. 29--Nov. 6, 1991. Rockwell argues that the Telebit article discloses each limitation of the '590 patent claims. Celeritas responds that Rockwell has a heavy burden in sustaining that position because the Telebit article was disclosed to the PTO during prosecution of the '590 patent and the patent obviously was granted despite the existence of that reference. *See Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1467, 15 USPQ2d 1525, 1527 (Fed. Cir. 1991) (stating that "the burden of showing . . . invalidity . . . is especially difficult when the prior art was before the PTO examiner"). Celeritas further argues that substantial evidence supports the jury's implicit finding that the Telebit article fails to disclose a single carrier modem that incorporates de-emphasis (*i.e.*, the "spectral shaper" of claim 2 of the patent).

In the PTO and to the jury, Celeritas emphasized that the article taught away from the claimed invention, teaching the solution of amplitude reduction, and expressly stating that de-emphasis would not work well in a single-carrier system. For example, Celeritas informed the PTO that:

> [m]ore importantly, the Telebit article *teaches away from* Applicant's invention. First it should be understood that the Telebit article describes a simulation of a

> modem and a cellular radio system. The Telebit article describes a modem that uses a large number of simultaneous carriers to transmit data in contrast to single carrier modems for which Applicant's invention is intended, and teaches that the use of de-emphasis would not work for single carrier systems.

(emphasis in original). In addition to its "teaching away" argument, Celeritas asserts that the Telebit article fails to disclose a modem that uses a single-carrier data signal and that the de-emphasis circuit disclosed is not "in" the modem as required by claim 2. Rockwell responds that the Telebit article clearly discloses each limitation of the claims.

We agree with Rockwell that no reasonable jury could have determined that the Telebit article did not anticipate the claims of the patent. It is well settled that a claim is anticipated if each and every limitation is found either expressly or inherently in a single prior art reference. *See Structural Rubber Prods. Co. v. Park Rubber Co.*, 749 F.2d 707, 715, 23 USPQ 1264, 1270 (Fed. Cir. 1984). A reference is no less anticipatory if, after disclosing the invention, the reference then disparages it. Thus, the question whether a reference "teaches away" from the invention is inapplicable to an anticipation analysis. *See Kalman v. Kimberly-Clark Corp.*, 713 F.2d 760, 772, 218 USPQ 781, 789 (Fed. Cir. 1983) ("The law of anticipation does not require that the reference 'teach' what the subject matter of the patent teaches. . . . [I]t is only necessary that the claims under attack, as construed by the court, 'read on' something disclosed in the reference."), *overruled in part on other grounds, SRI Int'l v. Matsushita Elec. Corp. of Am.*, 775 F.2d 1107, 1125, 227 USPQ 577, 588 (Fed. Cir. 1985) (in banc).

As a factual matter, the Telebit article itself and the testimony offered at trial conclusively demonstrate that the

article discloses the use of a single-carrier data signal, not only multi-carrier signals. As Celeritas's own witnesses testified, the Telebit article describes a test signal that sends twenty-one tones to simulate a modulated signal. The article states that the test signal, composed of twenty-one tones, has "a probability distribution of magnitude that closely matches that of a V.29 modem." Dolan, the inventor of the '590 patent, testified that the V.29 signal is a single-carrier data signal. Thus, contrary to Dolan's statement to the PTO that the Telebit article only discloses the use of a "large number of simultaneous carriers," the article actually does disclose a simulated single-carrier data signal.

Regarding the use of de-emphasis in the transmit modem, the article states:

> 4.1 *De-emphasis in the Modem Transmitter*
>
> As discussed in Section 2.2, pre-emphasis of a wideband signal before limiting severely constrains the signal power and thereby the performance in the presence of noise and interference. To counteract the pre-emphasis a one-pole low-pass filter was simulated at the modem output. . . .
>
> This de-emphasis would cause severe inter-symbol interference in a single-carrier data signal; it may be feasible only for multicarrier signals.

It is clear that the first paragraph in this passage describes a simulated de-emphasis circuit at the output of a simulated modem, which the record shows must be the simulated V.29 modem using a single-carrier data signal. This is confirmed by the second paragraph, which discloses the results of the simulated single-carrier data signal and indicates difficulties with it. The article does clearly disclose the use of a de-emphasis circuit in a modem using a single-carrier data signal. The fact that a modem with a single carrier data

signal is shown to be less than optimal does not vitiate the fact that it is disclosed. The modem in the article is not disclosed to be inoperative. It may be that Dolan invented a solution to the problem cited in the article; however, the invention as claimed is not limited to the Dolan solution to that problem; the broad claims at issue read on what is disclosed in the Telebit article. Because it is beyond dispute that the Telebit article discloses each of the claimed limitations, the claims are anticipated and hence invalid. Accordingly, the district court erred by not granting Rockwell's motion for JMOL that the patent is invalid.

D. Misappropriation of Trade Secrets

Because we affirm the determination of liability under the contract claim, we also need not consider Rockwell's arguments regarding the jury's verdict for misappropriation of trade secrets. This portion of the verdict was not incorporated into the district court's judgment because Celeritas stipulated that it would accept the liability theory with the highest damage award. However, we need to consider the issue of Celeritas's cross-appeal.

Celeritas argues that the court clearly erred by not combining the contract award with the exemplary damage award. Rockwell responds that the stipulation suggested and agreed to by Celeritas bars such a recovery. We agree with Rockwell that Celeritas elected its remedy. That remedy was for breach of contract, and the exemplary damages accompanied the misappropriation award, which was not elected. Celeritas stipulated to accept the single highest award from the three causes of action consisting of patent infringement, trade secret misappropriation, and breach of contract in order to avoid complex jury instructions dealing with avoiding duplicative damages. This stipulation is reflected in the following colloquy between counsel for Celeritas and the court:

> Counsel: Your Honor will only be required to enter judgment on the highest of those awards. . . .
>
> These three different causes of action give us different remedies for that wrong [use of technology without paying for it]. And we, Celeritas, see them as alternatives and will not ask the court to add them together.
>
> The Court: In other words, you will accept the highest of the three?
>
> Counsel: Correct.
>
> The Court: Not require the court to try to determine whether there is any duplicative.
>
> Counsel: I don't think that is necessary. I think that would be greedy, your honor. I think my stipulation is made. We'll take the highest amount and will be done with it.

It is thus clear from the record that Celeritas stipulated that judgment would be entered on a single claim. Celeritas cannot now avoid its stipulation in an attempt to increase its overall damage award. The purpose of the stipulation was to avoid an inquiry into the overlap in the damage awards arising from multiple related claims. The district court did not understand Celeritas to be reserving the right to exemplary tort damages regardless of the claim selected, and neither do we. It ill lies in the mouth of a party who waives a form of damages in the district court in order not to be greedy to be seeking to override that waiver in the appeals court. Accordingly, we affirm the district court's judgment awarding damages solely on the contract claim.

CONCLUSION

The jury's verdict awarding Celeritas damages for breach of contract was supported by substantial evidence and the theory under which damages were awarded was not legally unsound. Thus, the district court did not err in denying Rockwell's motion for JMOL on liability and for a new trial on damages. Pursuant to Celeritas's stipulation, the district court properly awarded Celeritas damages only on its breach of contract claim. The district court erred, however, by not granting a JMOL that the claims of the '590 patent are anticipated by the Telebit article. The patent is invalid. Accordingly, the district court's award of attorney fees under 35 U.S.C. § 285 is reversed.

AFFIRMED-IN-PART and REVERSED-IN-PART

COSTS

No costs.

APPENDIX B

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV 95-6371 ER (BQRx)

CELERITAS TECHNOLOGIES, LTD.,
Plaintiff,

v.

ROCKWELL INTERNATIONAL CORP.,
Defendant.

ORDER CLARIFYING ORDER AND JUDGMENT

[stamp—FILED; JUN 30 1997; CLERK, U.S. DISTRICT COURT; CENTRAL DISTRICT OF CALIFORNIA]

[stamp—ENTERED; CLERK, U.S. DISTRICT COURT; JUL 7 1997; CENTRAL DISTRICT OF CALIFORNIA]

The Court, having received Rockwell's Request for Clarification and Celeritas' Opposition thereto, and having considered other matters in the record relevant to the Request, HEREBY ORDERS

The amount of remittitur accepted by plaintiff was a total damage award on patent infringement of $34,968,320, as stated by the Court in its Memorandum of Decision filed May 30, and as expressly accepted by Celeritas in its Motion for Reconsideration or in the Alternative Acceptance of Remittitur.

The Court awarded attorneys' fees under 35 U.S.C.§ 285 in its Order dated January 27, 1977 because plaintiff had succeeded in its patent infringement suit and based in part on

the jury's finding of wilful infringement, the Court found this to be an exceptional case warranting an award of attorney's fees. The parties stipulated at trial that plaintiff would accept the highest of the jury's damage awards. Attorneys' fees are not damages, nor are they awarded by the jury. The plaintiff therefore did not stipulate away any right to an award of attorney's fees under 35 U.S.C. §285, and the Judgment merely reflects the Court's January 27 Order awarding such attorneys' fees.

IT IS SO CLARIFIED.

IT IS FURTHER ORDERED that the Clerk of the Court shall serve, by telefax, copies of this Order on counsel for the parties in this matter.

Dated: June 30, 1997

/s/ Edward Rafeedie
EDWARD RAFEEDIE
United States District Court Judge

APPENDIX C

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV 95-6371 ER (BQRx)

CELERITAS TECHNOLOGIES, LTD.,
Plaintiff,

v.

ROCKWELL INTERNATIONAL CORP.,
Defendant.

JUDGMENT ON THE VERDICT FOR PLAINTIFF

[stamp—FILED; JUN 26 1997; CLERK, U.S. DISTRICT COURT; CENTRAL DISTRICT OF CALIFORNIA]

[stamp—ENTERED; CLERK, U.S. DISTRICT COURT; JUL 1 1997; CENTRAL DISTRICT OF CALIFORNIA]

This cause. having been tried by the Court and a jury, before the Honorable Edward Rafeedie, Judge presiding, and the issues having been duly tried, and the jury having duly rendered its verdict; now, therefore, pursuant to the verdict and the stipulation of counsel for plaintiff to accept the highest of the three damage awards, IT IS ORDERED, ADJUDGED AND DECREED THAT:

1. Pursuant to the stipulation of the parties to take the highest valid award of the three alternative theories of damages, and the Court having found the highest valid award of damages to be for breach of contract in the amount of fifty-seven million, six hundred fifty eight thousand dollars ($57,658,000); and

2. Plaintiff and defendant having stipulated on February 24, 1997, to the award of $85,820.05 in costs; and

3. The Court having awarded attorneys' fees under 35 U.S.C. § 285, in an amount later stipulated by the parties to be $900,000;

Plaintiff Celeritas Technologies, Ltd. have and recover from Rockwell International Corporation the sum of fifty seven million, seven hundred forty three thousand, eight hundred twenty dollars and five cents in damages and costs of suit, and nine hundred thousand dollars in attorneys' fees, together with post judgment interest to run from the date of the Court's original judgment on January 21, 1997.

IT IS SO ORDERED.

IT IS FURTHER ORDERED that the Clerk of the Court shall serve, by telefax, copies of this Order on counsel for the parties in this matter.

Dated: June 26, 1997

/s/ Edward Rafeedie
EDWARD RAFEEDIE
United States District Court Judge

APPENDIX D

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV 95-6371 ER (BQRx)

CELERITAS TECHNOLOGIES, LTD.,
Plaintiff,

v.

ROCKWELL INTERNATIONAL CORP.,
Defendant.

ORDER DENYING MOTION TO RECONSIDER AND ACKNOWLEDGING PLAINTIFF'S ACCEPTANCE OF REMITTITUR

[stamp—FILED; JUN 26 1997; CLERK, U.S. DISTRICT COURT; CENTRAL DISTRICT OF CALIFORNIA]

The Court, having read and considered the plaintiff's Motion for Reconsideration or in the Alternative Acceptance of Remittitur, the opposition and reply papers thereto, and after determining that the matter is suitable for disposition without the need for oral argument, HEREBY ORDERS THAT

The motion is DENIED. Plaintiff has not met any of the three requirements of Local Rule 7.16 to warrant reconsideration of its May 30, 1997 Memorandum of Decision. Furthermore, were the Court to construe the *Snellman* trial court Exhibit 143 as competent evidence (which it is not because there is no authentication of it), the Court could not consider it in interpreting *Snellman,* under Federal Circuit authority. "When an issue is not argued *or is ignored in a*

decision, such decision is not precedent to be followed in a subsequent case in which the issue arises." *National Cable Television Assoc., Inc. v. American Cinema Editors, Inc.*, 937 F.2d 1572, 1581 (Fed. Cir. 1991) (emphasis added).

The Court hereby ACKNOWLEDGES Plaintiff's acceptance of the Court's Remittitur Order of April 30, 1997, and will enter judgment in the case forthwith in the amount of $57,658,000 on the breach of contract claim, $900,000 in attorneys' fees pursuant to 35 U.S.C. § 285, and costs of $85,820.05 as stipulated by the parties.

IT IS SO ORDERED.

IT IS FURTHER ORDERED that the Clerk of the Court shall serve, by telefax, copies of this Order on counsel for the parties in this matter.

Dated: June 26, 1997

/s/ Edward Rafeedie
EDWARD RAFEEDIE
United States District Court Judge

APPENDIX E

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV 95-6371 ER (BQRx)

CELERITAS TECHNOLOGIES, LTD.,
Plaintiff,

v.

ROCKWELL INTERNATIONAL CORPORATION
Defendant.

**MEMORANDUM OF DECISION RE:
ORDER GRANTING IN PART DEFENDANT'S MOTION
FOR A NEW TRIAL OR REMITTITUR**

[stamp—FILED; MAY 30 1997; CLERK, U.S. DISTRICT COURT;
CENTRAL DISTRICT OF CALIFORNIA]

Following a trial to a jury on the issues of patent infringement, trade secret misappropriation, and breach of contract. The jury returned verdicts in the amounts of $57,658,000 each on the patent infringement and breach of contract claims and $26,850,000 in compensatory and $26,850,000 in exemplary damages on the trade secret misappropriation claim, the defendant moved for a new trial on the issue of damages.

Prior to submission of the case to the jury, the parties stipulated that in lieu of instructing the jury on the prohibition against awarding duplicate damages for the same harm, the case should be submitted to the jury on all three theories, and plaintiff agreed to accept as the jury's verdict the highest of the three awards.

The Court entered the verdicts on the minutes of the Court, and on motion of the plaintiff, the Court doubled the award for patent infringement to $115,316,000 under 35 U.S.C. § 284. This award was the highest of the three returned by the jury. The Court also awarded plaintiff its attorneys' fees under 35 U.S.C. § 285.

The grounds for the defendant's motion for a new trial on damages are as follows:

Defendant argues that the damages for inducing patent infringement are defective for three reasons. First, it claims that 35 U.S.C. § 248 does not permit the award of a lump-sum prepaid royalty which includes royalties for sales to occur after the time of the trial as the measure of a hypothetical licensing agreement's "reasonable royalty." Second, plaintiff argues that defendant cannot collect a reasonable royalty on most of the sales of the chipsets inducing infringement because there was evidence that they were produced, assembled, and/or put to use outside the United States. Third, defendant argues that there was evidence of only a limited number of connector cables which could have allowed use of the Rockwell chipsets in an infringing combination, and that the damages for infringement should therefore be limited to royalties based on that maximum number.

As to the claim for Rockwell's misappropriation of Celeritas' trade secret, defendant makes three arguments. First, it argues that Celeritas waived the right to seek a reasonable royalty, which the jury awarded as damages. Second, it argues that the reasonable royalty awarded could be for only its one (1) month of sales which occurred prior to the issuance of the patent, and that application of the "headstart rule" does not alleviate this inadequacy. Third, defendant argues that if the compensatory damages are decreased, the exemplary damages should be decreased commensurately.

As to the claim for breach of contract, Defendant argues that the damage award given by the jury was based on a hypothetical second contract, and that to award damages in this form is too speculative to be a valid award for breach of contract.

The Court previously granted in part the motion for a new trial as to the patent infringement claim in its order of April 30, 1997, and denied it as to the breach of contract and trade secret claims. In granting the new trial, the Court offered the plaintiff the option to accept a remittitur in lieu of a new trial on the issue of patent infringement damages,[1] in the amount of the royalties and prejudgment interest granted by the jury for the 1997-1999 portion of the "lump sum reasonably royalty."[2] The Court found that 35 U.S.C. § 284 does not allow the plaintiff to recover damages for infringement which will never occur.

The Court also granted the plaintiff's ex parte request to file its acceptance or rejection of the offer of remittitur within 5 days of the receipt of this memorandum.

---

[1] Rockwell has requested "clarification" of the April 30 Order. The Court believes that the April 30 Order is *patently* clear that the scope of the new trial on damages (if so required) would be limited to patent infringement damages, as it states, "Plaintiff's other alternative is to refuse the remittitur and have a new trial on the infringement damages in the hope of a obtaining a verdict greater than that awarded for breach of contract."

[2] The Amount of the remittitur was erroneously stated in the April 30, 1997 order to be $18,905,216, enhanced to $37,810,432. The proper amount of the remittitur should have been stated as $17,484,160, enhanced to $34,968,320. This figure reflects an adjustment in the amount of prejudgment interest awarded, by conforming it to the same time period for which the jury awarded interest, specifically January 31, 1995 through September 30, 1996. To the extent that the Order states a different figure, it is vacated.

I. PROCEDURAL POSTURE AND STANDARD FOR NEW TRIAL OR REMITTITUR

Fed. R. Civ. P. 59 states that a "new trial may be granted . . . on all or part of the issues . . . in any action in which there has been a trial by jury, for any of the reasons for which new trials have heretofore been granted in actions at law in the courts of the United States . . . ." A district court may grant a new trial in its discretion if "the verdict is contrary to the clear weight of the evidence, or is based upon evidence which is false, or to prevent . . . a miscarriage of justice." *Rattray v. City of National City*, 51 F.3d 793 (9th Cir. 1994). A district court has the power to condition the denial of a new trial motion upon the nonmoving party's consent to a remittitur. *Minthorne v. Seaburg Corp.*, 397 F.2d 237 (9th Cir. 1968).

No judgment has yet been entered in this case. However, a motion for a new trial may be filed before the entry of judgment. *Dunn v. Truck World, Inc.*, 929 F.2d 311 (7th Cir. 1991).

II. THE PATENT INFRINGEMENT DAMAGES CLAIMS

A. Rockwell's Contentions

Rockwell's first argument is that the jury's damage award was contrary to the clear evidence which showed that very few of the chipsets sold could have been used in an infringing combination, and that as a matter of law, the royalty could not be based on sales of chipsets which were not used in an infringing combination. The second argument is that the jury's award was contrary to the clear evidence that over half of the chipsets sold were sold outside the United States, and that damages awarded may be based only on sales of infringing goods made in the United States. The third argument is that the jury erred as a matter of law when it based its award of a reasonable royalty on projections of

sales in the years 1997 through 1999, for which there could not be infringement because Rockwell ceased production of the infringing chipsets at the close of the trial at the end of December, 1996. Each argument will be addressed in turn.

B. Law Governing Patent Damages

Title 35 U.S.C. § 284 states the measure of damages for patent infringement:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.
>
> The Court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Damages in patent cases are determined in different ways depending on the circumstances of the case. "A patentee may seek to recover actual damages, usually, the amount of profits actually lost, or if unable to prove actual damages, the patentee is entitled to a reasonable royalty." *Smithkline Diagnostics, Inc. v. Helena Laboratories Corp.*, 926 F.2d 1161, 1163 (Fed. Cir. 1991). The choice of whether to seek lost profits or a reasonable royalty as the measure of damages is left to the plaintiff. *Id.* at 1164-65 n. 2. A reasonable royalty to be paid by the infringer is derived from assuming a hypothetical negotiation between a willing patent owner and a willing potential user, assumed to have taken place at

the time the patent was first infringed. *TWM Mfg. Co., Inc. v. Dura Corp.*, 789 F.2d 895, 898-99. In 1970, Judge Tenney authored his opinion in *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir. 1971), *cert. denied*, 404 U.S. 870 (1971), in which he laid out the factors to be considered in arriving at a reasonable royalty to be paid to a patent owner by an infringer. These factors (the "*Georgia Pacific* factors") have been adopted by most courts, including the Federal Circuit, as useful in determining the result of the hypothetical arm's-length royalty negotiation. *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983). They are set forth in large measure in the Ninth Circuit's pattern jury instruction on the amount of a reasonable royalty, which was given in the present case and is reprinted in footnote 2.

Unisplay v. American Electronic Sign Co., 69 F.3d 512, 517 (Fed. Cir. 1995) describes the calculation of a reasonable royalty:

> The statute contemplates that when a patentee is unable to prove entitlement to lost profits or an established royalty rate, it is entitled to "reasonable royalty" damages based upon a hypothetical negotiation between the patentee and the infringer when the infringement began. See *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078, 219 USPQ 679, 682 (Fed. Cir.1983) (describing the hypothetical negotiation as one "resulting from arm's length negotiations between a willing licensor and a willing licensee"). Although this analysis necessarily involves an element of approximation and uncertainty, a trier of fact must have some factual basis for a determination of a reasonable royalty. Any rate determined by the trier of fact must be supported by relevant evidence in the record.

As to a motion for new trial on damages which is predicated upon a claim that the royalty damages awarded were unreasonable, the *Unisplay* court stated:

> The determination of the amount of damages based on a reasonable royalty is an issue of fact. *SmithKline Diagnostics, Inc. v. Helena Lab, Corp.*, 926 F.2d 1161, 1164, 17 USPQ2d 1922, 1924 (Fed.Cir.1991). When a party files a motion to amend the judgment or in the alternative to grant a new trial on the amount of damages awarded by a jury, "the trial court determines whether the jury's verdict is against the clear or great weight of the evidence." See *Standard Havens Prods. v. Gencor Indus.*, 953 F.2d 1360, 1367, 21 USPQ2d 1321, 1326 (Fed.Cir.1991), cert. denied, 506 U.S. 817, 113 S.Ct. 60, 121 L.Ed.2d 28 (1992). The district court has wide discretion in determining whether to grant a new trial under this standard.

Id.

Liability for patent infringement is governed by 35 U.S.C. § 271. Subsections (a) and (b) state:

> (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes on the patent.
>
> (b) Whoever actively induces infringement of a patent shall be liable as a infringer.

Also relevant to the present case is subsection (f) (1), which states:

> Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial

> portion of the components of a patented invention, where such components are uncombined in whole or in part, in such a manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 271(f) (1).

C. Chipsets Used in an Infringing Combination

Rockwell makes the argument that in order for the chipsets it produced to induce infringement, Celeritas must prove the occurrence of direct infringement, i.e. that the chipset was used with a computer, a modem, and a radio transmitter and receiver (a cellular telephone) in an infringing combination. Rockwell argues that because it presented evidence at trial to show that there were a limited number of cables capable of connecting the modem to the cellular telephone in order to produce the infringing combination, that damages must be limited to the number of direct infringements proven possibly to have occurred, which it claims is at most 540,000, based on the existence of 135,000 cables and assuming that they were all used twice in an infringing combination occurring at both ends of the connection.

This argument misconceives the inquiry. If Rockwell is arguing that the circumstantial evidence presented at trial to establish direct infringement is insufficient, the Court disagrees. In this respect, the case of *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261 (Fed. Cir. 1986), *cert. denied* 479 U.S. 1030 (1987) (further subsequent history excluded), is dispositive of this issue. In *Moleculon*, the holder of an allegedly infringed patent for the method

employed by the allegedly infringing device, the Rubik's Cube, sued the producer of the Rubik's Cube. The allegedly infringed invention was the method by which the Rubik's Cube was twisted and manipulated in order to return it to the "preselected pattern," i.e. each face only of a single color. In order to show direct infringement, the plaintiff was required to show that a Rubik's Cube had in fact been manipulated in such a way as to return it to the preselected pattern. In other words, the plaintiff had to prove that someone used the patented method to manipulate and solve the puzzle. The appeals court affirmed the trial court's finding of circumstantial evidence of direct infringement through extensive puzzle sales, dissemination by the producer of an instruction sheet teaching the use of the patented method of restoring the preselected pattern, and the availability of a solution booklet on how to solve the puzzle. In other words, the case held that though it is true that direct infringement must be proven in order to prove liability for inducing infringement under 35 U.S.C. § 271(b), the underlying direct infringement could be shown by circumstantial evidence. *Id.* at 1272-73.

Turning to the present case, evidence was presented at trial to show that the chipsets were marketed by Rockwell as "cellular optimized" and their use in conjunction with cellular systems was encouraged in their sales, demonstration and packaging. Therefore, evidence of direct infringement was proven circumstantially in the same way as in *Moleculon*. The jury found the plaintiff's evidence more compelling and found liability. The Court will not substitute its judgment for that of the jury with respect to this matter.

Rockwell is correct in its assertion that *Moleculon* stands for the proposition that *liability* may be found based on circumstantial evidence. Relying on *Standard Havens Products v. Gencor Industries*, 953 F.2d 1360 (Fed. Cir.

1991), it argues that damages may not be awarded where the plaintiff has failed to prove direct infringement, and that damages may only be awarded *to the extent* that the plaintiff proves direct infringement. Because only a limited number of cables were in existence which would have allowed the chipsets to be used in an infringing combination, Rockwell argues that Celeritas could not prove direct infringement of its patent in more than 540,000 instances.

This argument again misconceives the inquiry, and Rockwell's reliance on *Standard Havens* is misplaced. In that case, the plaintiff sought lost profits for the infringer's sales of infringing asphalt plants. The Federal Circuit panel stated, "[a] lost profits award requires (1) [causation] and (2) proper evidence for the computation of the loss of profits." *Id.* at 1372. In the present case, the plaintiff does not seek lost profits, but rather sought a reasonable royalty. The plaintiff is not required to prove that profits were lost as a result of the infringer's actions when the plaintiff seeks a reasonable royalty. The plaintiff must argue the factors set forth in the Ninth Circuit's jury instruction and the evidence available under those factors to show what agreement the parties would hypothetically have entered into at the outset of the infringement, had they so agreed. *See Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir. 1971), *cert. denied*, 404 U.S. 870 (1971).

Evidence was presented to show that the custom in the industry for technology to be incorporated into a new device is often in the form of a fixed per-unit royalty, to be paid in a lump sum up front based on sales projections of units to be sold. The jury believed it. The Court will not deviate from that factual determination. Additionally, it is ludicrous to believe that the parties would have entered into an agreement to pay a royalty only on those chipsets which would be used

with cables, when those cables might be produced after the fact by any number of companies and keeping track of their existence would be a Herculean task. Finally, the evidence of how many cables were available was disputed at trial.

In conclusion, this basis for a new trial fails.

D. Chipsets Sold Outside the United States

Defendant's next argument is that because 35 U.S.C. § 271(f) requires, in order to show infringement, that the defendant "supplied in or from the United States all or a substantial portion of the components of a patented invention," and that Celeritas failed to prove it, that a new trial on damages or remittitur should be granted. The jury was instructed on §271(f). Once again, this argument really addresses liability and not damages. Plaintiff is correct when it states in its brief, "[o]nce again, Rockwell attempts to characterize the jury's award of a lump-sum payment as a royalty based on every chipset Rockwell sold rather than a lump-sum [paid up] royalty based on projections when infringement began." Celeritas proved at trial, and the jury believed, that most of the firmware and a substantial portion of the silicon dies used to produce the chipsets were produced in Newport Beach, California. This was sufficient to convince the jury of the fact of a substantial portion of the infringing goods being produced or sold in the United States, and the Court will not countermand that determination.

This ground for a new trial is without merit.

E. Lump Sum Royalty for Projected Future Infringing Sales

The parties dispute whether the hypothetical licensing agreement representing the amount of a reasonable royalty is to be measured *only for the temporal period of infringement* or merely for *any period to which the parties would*

hypothetically have agreed, whether that period represents the period of infringement or more than that period, and even if that hypothetical period covers time in the future after the infringement has ceased. In other words, plaintiff argues that the "hypothetical licensing agreement" entered into by the parties should be whatever they would have entered into at the time of first infringement, licensing the patent into the future for whatever period of duration to which the parties might hypothetically have agreed at the time. Defendant argues that the words of 35 U.S.C. § 284, which states that the reasonable royalty should be paid "for use *made* of the invention by the infringer" (emphasis added) means exactly that, and the judicially created hypothetical licensing agreement should be limited to representing the amount for which the parties would have agreed to license the patent *for that period only.* No authority cited by either of the parties or found by the Court in its research has directly addressed this issue.

Celeritas repeatedly cites to United States Supreme Court precedent which it claims establishes that a prospective lump sum paid up royalty for future sales is authorized by law. It claims that this was established in *Automatic Radio Mfg. Co., Inc. v. Hazeltine Research, Inc.*, 339 U.S. 827, 70 S. Ct. 894 (1950), in which Hazeltine, the patent assignee, brought an action against Automatic, the licensee, for royalties due under a ten year patent license agreement commencing in 1942 which covered a group of 570 patents and 200 applications relating to the manufacture of radio broadcasting apparati. The relief sought was an accounting and royalties for the year 1946. The nonexclusive licensing agreement permitted, but did not require, Automatic to use, in the manufacture of its radio products, any and all of the patents which Hazeltine held or to which it might acquire rights. In exchange, Automatic was to pay royalties based on a small percentage of the selling price of its products.

Automatic contended that it was a "misuse of patents to require the licensee to pay royalties based on its sales, even though none of the patents are used." 339 U.S. at 830, 70 S. Ct. at 896. The Court held that "the royalty provision of the licensing agreement was sustained [by the trial and appeals courts] on the theory that it was a convenient mode of operation designed by the parties to avoid the necessity of determining whether each type of petitioner's product embodies any of the numerous Hazeltine patents." 339 U.S. at 833, 70 S. Ct. at 897.

The case thus addresses whether an agreement may provide for a royalty based on gross sales to be paid for the use of patents, whether those patents are used or not, as the consideration for the license to use them all. In other words, there was no fatal defect in the *contract* between Automatic and Hazeltine. The Court did not even remotely address the issue of whether a reasonable royalty under 35 U.S.C. § 284 could include a royalty based on prospective future sales which may never occur. The case does establish, however, that in determining what hypothetical licensing agreement the parties would have entered into in an arm's length transaction at the time of first infringement, the parties could have agreed to a per-unit royalty to be paid for the use of the '590 patent in consideration for a license to use it. As stated in *Unisplay, supra*, the question of what agreement the parties would have entered into is a question of fact. *Automatic Radio* stands for the proposition that such lump sum prepaid royalty agreements allowing the patent right to be "used or lost" may be made by contract, but not that 35 U.S.C. § 284 allows for a reasonable royalty to be paid by the infringer on sales which will *never* be "made."

Celeritas cites three principal Federal Circuit cases for the proposition that the damages award in the present case is appropriate. All of them are distinguishable from the present case.

In *Studiengesellschaft Kohle, M.B.H. v. Hercules, Inc.*, 105 F.3d 629 (Fed. Cir. 1997), the Federal Circuit interpreted a contract to mean that a lump-sum paid up royalty *could* be awarded, stating that "[central to this case is the proper construction of the parties' license agreement . . . [t]his is a question of contract interpretation under Delaware law," *Id.* at 632. The case does not even mention 35 U.S.C. § 284, nor does it discuss the hypothetical arm's length transaction royalty agreement. It is a contract interpretation case which addresses only retroactive damages and not statutory damages allowable under 35 U.S.C. § 284. Again, the Court does not quarrel with the proposition that a patent license agreement may be fashioned with a lump-sum, paid-up royalty as consideration.

Most closely on point with the present case is the Federal Circuit's decision in *Snellman v. Ricoh Co., Ltd.*, 862 F.2d 283 (Fed. Cir. 1988), *cert. denied*, 491 U.S. 910 (1989), in which the panel addressed an issue similar to, but not directly on point with, the present issue. In that case, the plaintiff was the holder of a patent on a photocopier paper sorting device on which defendant infringed. Evidence was presented at trial that one Ricoh report stated that the defendant company expected to manufacture and distribute 40,000 to 50,000 of the infringing devices in the United States. The Federal Circuit opinion does not state the date on which those projections were made, nor does it state the period for which those projections were made.[3] Ricoh introduced its own, contrary evidence that, at or around the time infringement began, its forecasts projected sales of only 3,150 of the infringing units in the United States.

---

[3] For that matter, nor do any other of the *Snellman* opinions state the period for which the projections were made. *See Snellman v. Ricoh Co., Ltd.*, 902 F.2d 43 (Fed. Cir. 1990) (appeal after remand) (table, text in Westlaw); *Snellman v. Ricoh Co.*, 802 F.2d 469 (Fed. Cir., Jul 22, 1986) (table); *Snellman v. Ricoh Co., Ltd.*, 836 F.2d 528 (Fed.Cir. 1987).

Pointing out that Ricoh failed to object at trial to an instruction that directed the jury to calculate damages "based upon or measured by the expectations of the parties at the time of the infringement," the Federal Circuit reversed the trial court's decision to set aside the $12,000,000 reasonable royalty verdict as a "miscarriage of justice," because the trial court was not free to re-weigh the jury's belief in the larger projected sales figures. *Id.* at 289.

Rockwell contends that *Snellman* involved only the question of whether the jury's verdict was supportable by the evidence according to the instruction it was given, but did not address whether the instruction itself was legally accurate. In other words, Rockwell claims that Ricoh's failure to object to the instruction at trial operated as a waiver. The opinion states that "Ricoh did not object to an instruction that directed the jury to calculate damages 'based upon or measured by the expectations of the parties at the time of infringement.' ". *Id.* at 289. Plaintiff argues that *Snellman* implicitly addressed the argument because the Federal Circuit does not allow parties to stipulate away an error of law. "The general rule is that in reviewing the law on a properly laid and renewed motion for JMOL, the appellate court is not bound by the instructions given the jury, even if they were not objected to." *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 975 n. 5 (Fed. Cir. 1995), *aff'd*, 116 S. Ct. 1384 (1996). Assuming the same to be true of motions for a new trial, and assuming that the instruction was legally correct, the question of whether royalties for sales in the future, after the trial, could be awarded under 35 U.S.C. § 284 was not specifically addressed, because the facts of *Snellman* do not state for what years the sales forming the basis of the royalty were projected. The only indication in *Snellman* that the plaintiff sought royalties for sales to occur in the future after the trial is the inference to be drawn from the size of the expected sales of 40,000 to 50,000 units.

However, this inference is insufficient to persuade the Court to deviate from the plain language of the statute.

The final case on which Celeritas principally relies is *Stickle v. Heublein, Inc.*, 716 F.2d 1550 (Fed. Cir. 1983), which Celeritas correctly states rejected the argument that a lump-sum paid up royalty is a compulsory license. *Id.* at 1563. In *Stickle*, the patent holder argued that allowing the infringer to pay up a lump sum and then continue to use the taco shell frying machines which infringed on plaintiff's patented process for frying tacos would impose a compulsory license on it to allow the infringer to continue to infringe. *Id.* The Federal Circuit rejected the argument, stating that the license was "implied in law," and that the injunction could be tailored to allow for future infringement of those fryers in current operation, but enjoin the production of any more. *Id.* Similarly, here, plaintiff does not seek to enjoin the usage by current owners of its patented process for transmitting digital data over radio, but merely seeks a royalty on those chipsets inducing such infringement which have already been produced. Defendant would be enjoined from *further* production of the chipsets found to induce infringement, but current owners of the chipsets will not be enjoined from their infringing use.

A reasonable royalty is the measure of damages Congress has chosen to award for infringement of patents when lost profits or other methods of determining damages would result in an injustice to the patentee. "A reasonable royalty is in fact a Congressional largesse for cases where a patentee might otherwise receive only nominal damages." *Rite-Hite Corp. v. Kelley Co. Inc.*, 56 F.3d 1538, 1574 (Fed. Cir. 1995). But there is no case which has specifically held that a reasonable royalty may be awarded for sales of infringing goods which will never occur.

In support of its position that the reasonable royalty given must be based on actual sales rather than on sales *projections,* Rockwell relies on a footnote from the Federal Circuit's decision in *Unisplay, S.A. v. American Electronic Sign Co., Inc.*, 69 F.3d 512 (Fed. Cir. 1995). *Unisplay* held that the trial court erred in denying defendant's motion for a new trial where the plaintiff's damages expert had testified to what royalty percentage would be reasonable if the hypothetical arm's length negotiation had been held at the time of the trial, rather than at the time of first infringement. *Id.* at 518-19. In coming to its conclusion, the Federal Circuit panel evaluated the trial court's handling of Unisplay's theory that the defendant had "poisoned the market" for its products by producing infringing products of lower quality, and that therefore a reasonable royalty should be based on defendant's sales projections rather than on defendant's actual sales of the infringing goods. The trial court had granted a motion in limine excluding evidence of that theory of damages, but without stating why it had done so, it allowed such evidence to be presented at trial. The panel wrote:

> Clearly, Burns [plaintiff's damages expert] was not discussing what royalty rate a hypothetical negotiation would have yielded *at the time the infringement began.* Instead, Burns was testifying to what the parties might arrive at *at the time of the trial.* Such testimony was not directed to the proper reasonable royalty criterion and therefore cannot support the jury's verdict.
>
> Moreover, Burns' testimony focused on a royalty rate applied to projected sales under the "poison the market" theory. At no time did he testify that a hypothetical negotiation between the parties at the time the infringement began would have yielded such an agreement. Therefore, his testimony based on the excluded

> "poison the market" theory was irrelevant and cannot support the jury's verdict.[9]

Id. (emphasis in original) (footnote repeated). The most troubling aspect of *Unisplay* is footnote 9 which follows the passage, and which reads "Unisplay's presentation of its 'poison the market' theory in itself did not 'poison the case.' The trial court properly instructed the jury to base its verdict on actual sales, not projected sales." *Id.* at 518 n. 9.

Though the scope of the footnote is unclear, this Court believes that unless the Federal Circuit intended to, with one footnote, overrule its cases such as *Stickle* and *Snellman*, which have held that a reasonable royalty may be based on projected rather than actual sales, the language must indicate that there was nothing on the facts of that case and the testimony presented by the expert to suggest that projected sales were a reasonable basis in that situation for a hypothetical lump-sum royalty.

Furthermore, in *Unisplay*, the plaintiff did not seek a lump-sum paid up license, but rather a per-unit royalty. There was therefore no need to examine projected sales in fabricating the hypothetical agreement, because there was no evidence that such an agreement would have been a lump-sum, paid-up license based on sales projections. Indeed, the evidence showed that the plaintiff put forward a theory that the parties would have agreed to a per-unit sold royalty with minimum quarterly payments and an up-front fee of $200,000. *Id.* at 518. Therefore, *Unisplay* is factually dissimilar to the present case, and its holding does not dispose of the present case.

Indeed, all of the questions regarding the hypothetical agreement into which the parties in a patent infringement suit would have entered are questions of fact. The procedures and methods of how the royalty would have been paid, how it would have been calculated and when it would

have been paid are questions of fact for the jury, to consider in light of the *Georgia Pacific* factors in determining a reasonable royalty. *See Unisplay*, 69 F.3d at 516 & n. 7. *Georgia Pacific* describes the use of the hypothetical arm's length agreement and the factors to be considered in arriving at its terms enumerated therein as "more a statement of approach than a tool of analysis." 318. F. Supp. at 1121. Regardless of whether it is an approach or a tool, the purpose of the hypothetical licensing agreement is to provide the correct measure of damages under the statute it was judicially created to serve, specifically 35 U.S.C. § 284. That statute states unequivocally that the minimum measure of damages, the reasonable royalty, is to be given "for the use made of the invention by the infringer." 35 U.S.C. § 284.

Rockwell claims that plaintiff may not be awarded a reasonable royalty based on sales projected to occur after the trial (in 1997-1999) because Celeritas may seek an injunction to stop Rockwell from producing the chipsets which induce infringement. Plaintiff responds that it does not intend to seek an injunction, but would rather have the money. In other words, the jury's award of damages will act as a compulsory license imposed at plaintiff's option on defendant into the future, specifically to the end of 1999. Plaintiff's argument assumes that plaintiff has this choice, even where Rockwell claims to have permanently ceased production of the chipsets which induce infringement.

Because none of the cases cited by either party is dispositive of the issue at hand, the Court looks to the language of the statute. The statute requires that the minimum reasonable royalty must be "for the use made of the invention by the infringer." 35 U.S.C. § 284. The hypothetical licensing agreement which was judicially created to serve the purpose of ascertaining this amount must not be allowed to exceed the bounds of the statute which it was created to serve. This

Court rules that the hypothetical licensing agreement into which the parties would have entered at the time of first infringement must be whatever agreement into which the factfinder determines the parties would have entered at the time of first infringement, bounded at the inception by the date on which infringement began, and at the terminus by the date on which infringement ceased.

The is the most logical formulation of the agreement to serve the purposes of the statute. The statute expressly states its purpose to provide "damages adequate to compensate for the infringement . . . ." 35 U.S.C. § 284. The inclusion of the term "compensate," which is defined as "to make an appropriate and usually counterbalancing payment to," or "to offset an error, defect, or undesired effect,"[4] implies that the damages, or a reasonable royalty, are given to repay harm done in the past, and not to create a windfall. In other words, where there has been no damage, there should be no compensation. For the years 1997 through 1999, which at present have yet to occur, there can be no damage. Therefore, there may be no compensation.[5]

Finally, relying on language in *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152 (6th Cir. 1978), plaintiff argues that to allow the defendant to pay only a royalty on that which it has infringed (i.e. through 1996) and no more (i.e. not 1997-99) places the defendant in the "heads-I-win, tails-you-lose" position at the outset of electing to infringe, and if caught and found liable, having to pay only for what

---

[4] G. & C. Merriam Co., *Webster's New Collegiate Dictionary* 229 (1974).

[5] To serve deterrent or punitive purposes, the Court has the option under §284 to increase the damages by up to three times. There is therefore no need for the additional deterrence which might be gained by allowing the hypothetical licensing agreement to extend into the future.

it has taken and no more. This is not true, as has been demonstrated in the present case. The Court, as it is allowed in its discretion to do under 35 U.S.C. § 284, doubled the patent infringement award, because the evidence strongly suggested, and the jury found, that Rockwell personnel had acted wilfully in making that very decision to "chance it."

F. Allowable Lump-Sum Reasonably Royalty Damages

Turning to the facts of the present case, it is undeniably clear that the jury intended to adopt Mr. Yurkewich's assessment of what hypothetical royalty agreement into which Rockwell and Celeritas would have entered, as is evidenced by its award of damages in the precise figure suggested by Mr. Yurkewich. Those damages presumed a five-year licensing agreement encompassing the years 1995 through 1999. The patent was issued on January 31, 1995. The trial concluded at the end of December, 1996. Therefore, the hypothetical lump sum paid up license which Rockwell should have paid should be based on damage calculations for the years 1995 and 1996, including interest from the date of first infringement, when such a hypothetical licensing fee would have been paid. Those figures show that royalties for 1995 and 1996 would have totaled $13,430,000. The interest was calculated by Mr. Yurkewich at 17% based on Rockwell's weighted average cost for capital for 1994, and was assumed to have accrued from January 31, 1995 (the date of issuance of the patent) until September 30, 1996. The Court will assume the same interest rate and start and end dates for the interest as presented by Mr. Yurkewich in his damage study which was adopted by the jury. Applying the same calculations as Mr. Yurkewich, this yields $17,484,160[6] as the appropriate sum

---

[6] The Court is aware that this figure differs from that stated in its Order Granting in Part and denying in Part Defendant's Motion for a

of the award for the hypothetical lump-sum paid up licensing fee for the years 1995 and 1996, including pre-judgment interest.

Celeritas argues that 35 U.S.C. § 284 requires that the patentee be awarded "in no event less than" a reasonable royalty, and that therefore, whatever the jury gave, the sum is appropriate. However, the Court has determined above that the method employed by the jury in determining the damages was erroneous as a matter of law. To the extent that plaintiff contends that a hypothetical licensing agreement for the years 1995 and 1996, using plaintiff's figures (as did the jury), could support a reasonable royalty of $57,658,000, plaintiff is mistaken. The figure is approximately three times the award which should have been given under the law (assuming plaintiff's royalty rate adopted by the jury). The Court agrees that it is "in no event less than" the correct royalty; on the contrary the Court would find the award to be "grossly excessive or monstrous," warranting a new trial, because there was no evidence presented to support such an exorbitant 1995-96 royalty. *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1580 (Fed. Cir. 1992).

G. Amount of Remittitur

"When calculating an amount to remit, in order to encourage use of the efficient remittitur option, we will follow the 'maximum recovery rule,' which requires that the

---

New Trial on the Issue of Damages filed on April 30, 1997. The interest has been recalculated to reflect the jury's award of interest through September 30, 1996. Pursuant to the stipulated judgment of the parties lodged on April 29, 1997, post judgment interest shall accrue from the date of the original entry of judgment, specifically January 21, 1997. The figure stated in the April 30 order is vacated.

determination be based on the highest amount of damages that the jury could properly have awarded based on the relevant evidence." *Unisplay v. American Electronic Sign Co.*, 69 F.3d 512, 519 (Fed. Cir. 1995). The Ninth Circuit also follows the "maximum remittitur rule." *D&S Redi-Mix v. Sierra Redi-Mix and Contracting Co.*, 692 F.2d 1245, 1249 (9th Cir. 1982).

Because the jury determined that a royalty of exactly the amount the plaintiff requested would be paid on every chipset produced, and because the Court has followed the same calculation of damages under a correct view of the law as it understands it, the maximum recovery would be the figure previously arrived at by the Court, namely $17,484,160. This is based on the theory that the jury would have awarded a lump-sum paid up royalty based on sales projections at the time of first infringement, for the period of the infringement.

At the April 28 hearing on this matter, plaintiff for the first time argued that under the "maximum remittitur rule," the Court should award the alternative measure of damages suggested by Mr. Yurkewich, plaintiff's damages expert, of $25,164,000 (doubled to $50,328,000) based on the royalty of $1.50 per unit for the first year and $1.00 per unit thereafter applied to Rockwell's *actual* sales of chipsets. This theory of damages was presented to the jury by Mr. Yurkewich and detailed in trial exhibit 476.2.

However, the jury did not award damages under this theory. It awarded damages under the theory of the hypothetical licensing agreement, and the Court does not see fit to deviate from the jury's intent and substitute a different theory of damages for that adopted by the jury. The Court will award the maximum possible recovery for the period of infringement based on the lump-sum paid up hypothetical licensing agreement theory adopted by the jury.

Additionally, the Court believes that if an actual per-chipset-royalty were paid, the award of damages would be susceptible to defendant's argument that royalties for chipsets produced which are not used in an infringing combination may not be the basis for a royalty. It would be close to impossible to ascertain the number of actual chipsets inducing infringement for purposes of the royalty to be paid for each one. Plaintiff has consistently argued that the evidence supported a lump-sum paid up royalty, and the jury gave it one. The Court will not disturb the jury's finding that this was the proper theory of damages as the hypothetical license to which the parties would have agreed.

Of the award, the evidence and the jury's factual findings support total of $17,484,160, doubled to $34,968,320. Plaintiff must agree to remit all patent infringement damages in excess of this figure or undergo a new trial on damages.

E. Conclusion

The Court therefore grants the motion for a new trial on damages in the patent infringement cause of action if the plaintiff does not to agree to a remittitur in the amount of $40,173,840, reducing the total award to $17,484,160 (prior to the enhancement for wilful infringement). After the enhancement for infringement, the total damages for patent infringement would be $34,968,320.

III. TRADE SECRET MISAPPROPRIATION DAMAGES

Rockwell attacks the jury's award of damages for Rockwell's misappropriation of Celeritas' trade secrets on two bases. First, Rockwell argues that the jury improperly awarded a reasonable royalty as the measure of damages, which neither the instructions given nor the law allowed it to do. Second, Rockwell argues that the technology was never a trade *secret* long enough for its misappropriation to have caused Celeritas any damages.

The Court does not find these arguments persuasive in light of the evidence offered at trial, which showed that Rockwell first obtained the COP technology during a September, 1993 meeting, but did not begin producing the COPs until January of 1995. The jury could reasonably have concluded, based on the evidence of the extraordinary commercial success of the COPs, that Rockwell gained, and Celeritas was damaged in, the amount given as trade secret damages. Furthermore, the fact that the amount was based on a calculated royalty does not invalidate it.

Therefore, as to the trade secret misappropriation cause of action, the motion for a new trial is DENIED.

IV. BREACH OF CONTRACT DAMAGES

The Court turns to the award of damages for breach of contract, which was identical to the pre-enhancement patent infringement damages award of $57,658,000. Rockwell contends that the jury's damage award for breach of contract was too speculative to have been supported by the evidence offered at trial.

The contract which Rockwell was found by the jury to have breached was the Nondisclosure Agreement (NDA) between the parties which was signed prior to Celeritas' sharing its newly developed technology with Rockwell. The NDA provided that in exchange for Celeritas' sharing the technology with Rockwell, Rockwell promised neither to disclose the technology nor to use the technology itself. The jury determined that Rockwell had breached the NDA.

Again, the Court finds that the evidence of commercial success of the invention and the evidence of nondisclosure agreements which developed into licensing agreements signed by Celeritas with numerous other major producers of microchips and computer equipment was a substantial evidentiary basis for the jury to award breach of contract

damages in the amount of $57,658,000, especially considering the fact that it was Rockwell's breach of the nondisclosure agreement which caused the difficulty in ascertaining the amount of damages.

Therefore, as to the cause of action for breach of contract, Rockwell's motion for a new trial is DENIED.

V. CONCLUSION

In conclusion, the Court has separately considered defendant's motion for a new trial or remittitur with respect to each cause of action on which the plaintiff won a verdict separately. The Court concludes that the awards for breach of contract in the amount of $57,658,000, and misappropriation of trade secret in the amount of $26,850,000 in compensatory and $26,850,000 in punitive damages, are supported by the evidence offered at trial. As to the award of $57,658,000 for patent infringement, the Court GRANTS defendant's motion for a new trial unless the plaintiff agrees to a remittitur to a total award on patent infringement of $17,484,160 (doubled to $34,968,320).

Should Celeritas accept the remittitur in lieu of a new trial on patent infringement damages, the Court will enter judgment in the amount of $57,658,000, which was the highest of the three awards it found to be supported by the evidence offered at trial.

Pursuant to this Court's Order Granting Celeritas an Extension of Time to respond to the Court's April 30, 1997 Remittitur Order filed on May 9, 1997, Celeritas has five (5) days from its receipt of this opinion to notify the Court as to whether it intends to accept the remittitur or undergo a new trial on the issue of damages as described herein.

IT IS SO ORDERED.

IT IS FURTHER ORDERED that the Clerk of the Court shall serve, by United States mail or by telefax, copies of this Order on counsel for the parties in this matter.

Dated: May 30, 1997

/s/ Edward Rafeedie
EDWARD RAFEEDIE
United States District Court Judge

I HEREBY CERTIFY THAT THIS DOCUMENT WAS SERVED BY FIRST CLASS MAIL, POSTAGE PREPAID, TO ALL COUNSEL (OR PARTIES) AT THEIR RESPECTIVE MOST RECENT ADDRESS OF RECORD IN THIS ACTION ON THIS DATE.

DATE: May 30, 1997

YOLANDA SKIPPER-RODRIGUEZ /s/SR
DEPUTY CLERK

APPENDIX F

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

97-1512, 97-1542

CELERITAS TECHNOLOGIES, LTD.,
Plaintiff/Cross-Appellant,

v.

ROCKWELL INTERNATIONAL CORPORATION,
Defendant-Appellant.

ORDER

[stamp—FILED; U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT; SEP 14 1998; JAN HORBALY; CLERK]

Before MAYER, Chief Judge, MICHEL, Circuit Judge, and LOURIE, Circuit Judge.

A petition for rehearing having been filed by the CROSS-APPELLANT,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

The mandate of the court will issue on September 21, 1998.

FOR THE COURT,

/s/ Jan Horbaly (AV)
Jan Horbaly
Clerk

Dated: September 14, 1998

cc: Richard S. Florsheim
Frederick A. Lorig

APPENDIX G

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

97-1512, 97-1542

CELERITAS TECHNOLOGIES, LTD.,
Plaintiff/Cross-Appellant,

v.

ROCKWELL INTERNATIONAL CORPORATION,
Defendant-Appellant.

ORDER

[stamp—FILED; U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT; SEP 14 1998; JAN HORBALY; CLERK]

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the CROSS-APPELLANT, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on September 21, 1998.

FOR THE COURT,

/s/ Jan Horbaly (AV)
Jan Horbaly
Clerk

Dated: September 14, 1998

cc: Richard S. Florsheim
Frederick A. Lorig

APPENDIX H

FREDERICK A. LORIG
PATRICK F. BRIGHT
BRIGHT & LORIG
A Professional Corporation
633 West Fifth Street, Suite 3330
Los Angeles, California 90071
Telephone: (213) 627-7774

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

CASE NO CV 95-6371 ER (BQRx)

CELERITAS TECHNOLOGIES, LTD., a California limited partnership,

Plaintiff,

vs.

ROCKWELL INTERNATIONAL CORPORATION, a Delaware corporation; AT&T, a New York corporation; and AT&T PARADYNE CORPORATION, a Delaware corporation,

Defendants.

FIRST AMENDED COMPLAINT FOR INFRINGEMENT OF U.S. PATENT 5,386,590; MISAPPROPRIATION OF TRADE SECRETS; BREACH OF CONTRACT; AND INTENTIONAL INTERFERENCE

JURY TRIAL DEMANDED

[stamp—FILED; CLERK, U.S. DISTRICT COURT; OCT 19 1995; CENTRAL DISTRICT OF CALIFORNIA; BY DEPUTY]

Plaintiff Celeritas Technologies, Ltd. (''Celeritas''), a California limited partnership, demanding trial by jury under F.R.C.P. Rule 38 and Local Rule 3.4.10.1, hereby complains against defendants Rockwell International Corporation (''Rockwell), a Delaware corporation, AT&T Corporation (''AT&T''), a New York corporation, AT&T Paradyne Corporation (''Paradyne''), a Delaware corporation as follows:

JURISDICTION

1. Plaintiff Celeritas Technologies, Ltd. (''Celeritas'') is a California limited partnership having a principal place of business within the Central District of California.

2. Defendant Rockwell International Corporation (''Rockwell'') is a Delaware corporation whose principal place of business is within the Central District of California.

3. AT&T Microelectronics (''Microelectronics'') is a division of AT&T Corporation (''AT&T''), a New York corporation having an office within the Central District of California.

4. AT&T Paradyne Corporation (''Paradyne'') is a Delaware corporation having an office within the Central District of California.

I.

FIRST CLAIM FOR RELIEF

(Patent Infringement)

Against All Parties

5. Celeritas incorporates paragraphs 1 through 4 by this reference as though fully set forth herein. This is an action for patent infringement arising under the patent laws of the United States. This Court has jurisdiction over the provisions of 28 U.S.C. § 1338(a). Venue is proper under 28 U.S.C. § 1400(b).

6. Prior to July 28, 1993, Michael G. Dolan ("Dolan") invented new apparatus and methods for improving the transmission of data over wireless communication systems using spectral shaping.

7. Cellular systems use radio transmitters to transmit both voice and data to and from cellular telephones. Before Mr. Dolan's invention, such cellular systems satisfactorily transmitted voice signals. However, these systems failed to transmit data at high rates of speed and failed to transmit some data at all. Mr. Dolan's patented invention utilizes de-emphasis or spectral shaping to overcome these problems. On January 31, 1995, United States Patent 5,386,590 (" '590 patent"), attached hereto as EXHIBIT A and incorporated herein by this reference, issued to Celeritas as Dolan's assignee, claiming Dolan's apparatus that permits rapid transmission of data over cellular telephone systems. Celeritas is the owner of the '590 patent.

8. The patented apparatus makes transmission of data, such as facsimiles, over cellular telephones practical for commercial use. Before the invention of the '590 patent, data sent over cellular telephones was slower, less reliable than non-cellular systems and permitted only slow, expensive transmission of facsimiles and other data.

9. In 1993, after Mr. Dolan's patent application had been filed with the United States Patent & Trademark Office, Celeritas approached a number of prospective licensees for its technology, including Rockwell, AT&T and Paradyne. Celeritas offered to enter into non-disclosure agreements with all of these prospective licensees with a view to obtaining agreements to license them under Celeritas' then-secret technology for improving the data transmission rate over wireless communication systems using spectral shaping, and, in the eventuality of the issuance of patents to Celeritas, a license under Celeritas' patent rights as well.

10. In 1993, defendant Rockwell executed a non-disclosure agreement, attached hereto as EXHIBIT B and incorporated herein by this reference. Thereafter, between 1993 and 1994, Celeritas and Rockwell negotiated the terms of a license, and, in 1994, reached an understanding as to the basic terms of a license. Nevertheless, Rockwell then decided not to complete negotiations of the license agreement and instead began to use Celeritas' technology without a license.

11. Some prospective licensees, including PacTel Cellular (now AirTouch Communications) and Compaq Computer Corporation, encouraged Celeritas to meet with defendant AT&T, its AT&T Microelectronics division and AT&T Paradyne (collectively referred to herein the "AT&T group") to encourage the adoption of Celeritas' technology throughout the wireless communication industry. However, the AT&T group refused to enter into a non-disclosure agreement with Celeritas.

12. Toshiba America Information Systems, Inc. ("Toshiba"), AirTouch and others entered into license agreements for Celeritas' technology before the '590 patent issued on January 31, 1995. IBM and others entered into a license agreements for Celeritas technology after the '590 patent issued. The AT&T group did not enter into a license agreement for the Celeritas technology. Instead, the AT&T group obtained Celeritas' technology through Celeritas' actual and potential licensees, including, on information and belief, Toshiba and others, who were parties to written non-disclosure agreements. Thus, the AT&T group knew or should have known they were obtaining Celeritas' secret technology by improper means.

13. On October 18, 1995, AT&T Wireless Services (formerly McCaw Cellular Communications Inc.) ("Wireless") announced it was deploying Wireless Packet Data

Services throughout the country using Paradyne technology which requires Wireless to infringe the '590 patent. Plaintiff will seek leave to add Wireless as a defendant if and when Wireless commences infringement in this district.

14. Defendants and each of them have wrongfully taken the benefits of Celeritas' invention. Each of them has been and is now infringing the '590 patent by making, using and selling the patented apparatus, by inducing others to infringe the '590 patent, and by contributing to the infringement of the '590 patent by others. As a result, Celeritas has lost royalties and profits it otherwise would have made but for the infringement. Defendants and each of them knew of, and have been and are willfully infringing, Celeritas' patent rights.

15. As admitted by Rockwell in paragraph 5 of EXHIBIT B, there is no adequate remedy at law for the breaches herein alleged. Therefore, Celeritas is entitled to preliminary and permanent injunctive relief, barring defendants or their licensees from using or disclosing any technology derived from Celeritas technology, including the sales of any products incorporating any component made by or containing said technology.

II.

SECOND CLAIM FOR RELIEF

(Misappropriation of Trade Secrets)

Against All Parties

16. Celeritas realleges and incorporates herein by this reference as though fully set forth the allegations of paragraphs 1 through 15, inclusive.

17. Jurisdiction over this claim exists by virtue of 28 U.S.C. § 1338(b) because it is an unfair competition action joined with a substantial related claim for patent

infringement alleged in the first claim for relief. Jurisdiction over this claim also arises under the doctrine of pendant and supplemental jurisdiction since the facts are intertwined with Celeritas' claims under Federal patent law. This claim for relief arises under the facts alleged in the First Claim for Relief. Trial of this claim in this court is in the interests of justice since, if viewed without regard to its Federal or state character, this claim would be tried in the same court as Celeritas' First Claim for Relief and does not predominate over Celeritas' claims for patent infringement. [28 U.S.C. § 1367(b)]

18. Celeritas and defendant Rockwell entered into a contract attached hereto as EXHIBIT B and incorporated herein by this reference.

19. Celeritas has done all things required of it to be done under the contract. At paragraph 2 et seq. of this contract (EXHIBIT B hereto), Rockwell agreed not to use or disclose Celeritas' proprietary technology, but has nevertheless done so in breach of this contract.

20. Before issuance of the '590 patent, both Celeritas' patent application and Celeritas' technology were kept secret, the former of the United States government and the latter by Celeritas itself. Celeritas took reasonable precautions to protect the secret nature of its technology and, in fact, advised each of the defendants of the secret nature of the technology.

21. Defendant Rockwell, by falsely and fraudulently promising not to use or disclose Celeritas' proprietary technology led Celeritas to disclose to Rockwell the secret apparatus which was later patented in the '590 patent, as well as improvements in Celeritas' technology made after Celeritas filed its application for the '590 patent.

22. AT&T, through Paradyne and AT&T Microelectronics, was advised by Celeritas that its technology was a trade secret, and would not be disclosed by Celeritas without a non-disclosure agreement. On information and belief, the AT&T group, in conversations with Toshiba and other actual and prospective Celeritas licensees, using improper means, learned of Celeritas' technology, including the technology later patented in the '590 patent, and, thereafter, threatened to use and did, in fact, use and disclose Celeritas' technology. The AT&T group did not use reverse engineering or independent derivation to obtain Celeritas's technology but instead used improper means to obtain said technology from parties it knew or had reason to know were subject to non-disclosure agreements.

23. In doing the things herein alleged, Paradyne and Microelectronics acted as agents of AT&T which utilizes its divisions and its separate but wholly-owned subsidiaries to produce cellular telephones, modems and circuitry and to deliver wireless services which have infringed the '590 patent since its issuance.

24. Defendants and each of them knew or had reason to know that they were obtaining Celeritas' trade secrets by improper means. AT&T obtained the technology from companies that had agreed to maintain the secrecy of Celeritas's technology. Rockwell obtained the technology by its misrepresentation and breach of its non-disclosure agreement with Celeritas.

25. Celeritas' technology, at the time of misappropriation, was a secret compilation of data with economic value, not generally known to the public or to other persons who could obtain economic value therefrom, and was subject to efforts that were reasonable under the circumstances to maintain its secrecy.

26. Pursuant to Section 3426.3 of the California Civil Code, Celeritas was damaged in an amount exceeding $50,000, and its actual losses were caused by defendants' misappropriation. Celeritas is also entitled to recover the unjust enrichment obtained by defendants through misappropriation that is not taken into consideration in computing Celeritas' actual losses.

27. In the alternative, if the finder of fact finds that neither damages nor unjust enrichment caused by defendants' misappropriation is provable, Celeritas was damaged by being deprived of reasonable royalties for licenses under its technology.

28. Because defendants' actions were willful and malicious, plaintiff seeks exemplary damages in an amount not exceeding twice any award, and attorneys' fees, as provided by Section 3426.3 and Section 3426.4 of the California Civil Code.

29. As admitted by Rockwell in paragraph 5 of EXHIBIT B, there is no adequate remedy at law for the breaches herein alleged. Therefore, Celeritas is entitled to preliminary and permanent injunctive relief, barring defendants or their licensees from using or disclosing any technology derived from Celeritas technology, including the sales of any products incorporating any component made by or containing said technology.

III.

THIRD CAUSE OF ACTION

(Breach of Contract)

Against Rockwell

30. Celeritas realleges and incorporates herein by this reference as though fully set forth the allegations of paragraphs 16 through 27, inclusive and paragraph 29.

31. As a direct and foreseeable result of the breaches herein alleged, Celeritas has lost opportunities and royalties according to proof in an amount exceeding $50,000.

IV.

FOURTH CAUSE OF ACTION

(Intentional Interference)

Against All Defendants

32. Celeritas realleges and incorporates herein by this reference as though fully set forth the allegations of paragraphs 16 through 27, inclusive, and paragraph 29.

33. Defendants and each of them using wrongful means have sought to interfere with Celeritas' actual and prospective license agreements by informing actual and prospective licensees of Celeritas that defendants' products already include Celeritas' technology, that no license from Celeritas is needed and that defendants' sale of products or license includes an indemnity for infringement of the '590 patent. Additionally, AT&T has licensed Celeritas' technology to other companies in an effort to interfere with Celeritas' business.

34. As a proximate result of said intentional interference and in order to mitigate its losses, Celeritas was forced to agree to lower license fees and received less beneficial terms from IBM, Megahertz, and Primary Access than would otherwise have been agreed to, and was not able to obtain licenses from Angia, Compaq, Data Race, Intel, U.S. Robotics, Xircom and others which would have otherwise been obtained and several actual licensees have questioned the need to pay under their licenses because they are obtaining the licensed technology from one or more of the defendants. As a result, Celeritas has been damaged in an amount exceeding $50,000.

35. In doing the things herein alleged, defendants acted intentionally and maliciously in conscious disregard of Celeritas' rights and Celeritas is entitled to punitive damages according to proof.

PRAYER

Plaintiff seeks the following relief:

Under the First Cause of Action

1. A preliminary and permanent injunction against further infringement of the '590 patent.

2. Actual damages for past infringement of the '590 patent according to proof under 35 U.S.C. § 284.

3. Enhancement of the actual damages because of defendants' willful infringement.

4. A finding that this case is extraordinary and an award of attorneys' fees under 35 U.S.C. § 285.

Under the Second Cause of Action

5. For actual damages and unjust enrichment not taken into consideration in computing Celeritas' actual losses, as proved by § 3426.33 of the California Civil Code.

6. In the alternative, a reasonable license fee or royalty.

7. Exemplary damages in an amount not exceeding twice any award and attorneys' fees as provided by §§ 3426.3-3426.4 of the California Civil Code.

8. Preliminary and permanent injunctive relief.

Under the Third Cause of Action

9. Damages according to proof.

10. Preliminary and permanent injunctive relief.

Under the Fourth Cause of Action

11. Damages according to proof.

12. Preliminary and permanent injunctive relief.

13. For exemplary damages according to proof.

All Causes of Action

14. For such other and further relief as may be just in the circumstances.

Dated: October 19, 1995

BRIGHT & LORIG, PC
FREDERICK A. LORIG
PATRICK F. BRIGHT

By: /s/ Frederick A. Lorig
FREDERICK A. LORIG

APPENDIX I

NONDISCLOSURE AGREEMENT

[stamp—EXHIBIT; 229; 7-31-96]

THIS NONDISCLOSURE AGREEMENT (the "Agreement") is made and entered into as of September 2, 1993, between Celeritas Technologies, Ltd., a California limited partnership, ("Celeritas") having a place of business at 26300 La Alameda, Suite 385, Mission Viejo, California 92691 and Rockwell International (Digital Communications Division), a Delaware corporation having a business address at 4311 Jamboree Road, P.O. Box C, Newport Beach, California 92658-8902 ("Rockwell").

WHEREAS, Celeritas and Rockwell are about to enter into discussion concerning prospective business arrangements between Celeritas and Rockwell which, among other things, may lead to Celeritas licensing certain technologies to Rockwell for incorporation into one or more products, now or in the future, produced by Rockwell;

WHEREAS, in the course of such discussions, each party expects to disclose certain confidential, proprietary and trade secret information, and information that constitutes intellectual property, to the other party; and

WHEREAS, Celeritas and Rockwell seek to safeguard and protect their respective confidential, proprietary and trade secret information, and intellectual property,

NOW, THEREFORE, in consideration of the mutual promises contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. *Definitions*

1.1 As used herein, the term "Disclosing Party" shall mean: (a) Celeritas, with respect to all Proprietary Information disclosed by Celeritas to Rockwell hereunder;

or (b) Rockwell, with respect to all Proprietary Information disclosed by Rockwell to Celeritas hereunder.

1.2 As used herein, the term "Receiving Party" shall mean: (a) Rockwell, with respect to all Proprietary Information disclosed by Celeritas to Rockwell hereunder; or (b) Celeritas, with respect to all Proprietary Information disclosed by Rockwell to Celeritas hereunder.

1.3 As used herein, the term "Proprietary Information" shall mean all confidential or proprietary information as well as information otherwise that constitutes intellectual property (whether or not reduced to writing) which is disclosed or made available by the Disclosing Party to the Receiving Party, and is designated in writing or verbally (with written confirmation given within ten (10) days of such disclosure) as Proprietary Information, including, without limitation, the following types of information: software programs, disks, diskettes, tapes, PROMS, source and object codes, algorithms, schematics, discoveries, ideas, concepts, drawings, blueprints, tracings, diagrams, models, samples, flowcharts, designs and design specifications, technical information, data, including test data, techniques, know-how, instruction manuals, training materials, business plans and proposals, financial information, marketing plans and studies, pricing information and the identity of actual or potential customers.

Notwithstanding the foregoing, Proprietary Information shall not include information which: (i) was in the public domain on the date hereof or comes into the public domain other than through the fault or negligence of the Receiving Party; (ii) was lawfully obtained by the Receiving Party from a third party without breach of this Agreement and otherwise not in violation of the Disclosing Party's rights; (iii) was known to the Receiving Party at the time of disclosure as shown by its records in existence at the time of disclosure;

or (iv) was, and or prior to the date hereof, wholly and independently developed by the Receiving Party without making use of any Proprietary Information.

2. *Nondisclosure.* In consideration of the Disclosing Party's disclosure of Proprietary Information to the Receiving Party, the Receiving Party agrees, for a period commencing as of the date hereof and ending five (5) years following the termination of this Agreement by notice as specified in paragraph 6.1 below that the Receiving Party:

(i) shall treat all Proprietary Information as strictly confidential;

(ii) shall not disclose or use any Proprietary Information (or any derivative thereof) except for the purpose of evaluating the prospective business arrangements between Celeritas and Rockwell;

(iii) shall protect all Proprietary Information, whether in storage or in use, with the same degree of care as the Receiving Party uses to protect its own proprietary information against public disclosure, but in no case with less than reasonable care;

(iv) shall disclose Proprietary Information only to such employees of the Receiving Party (and, in the case of Rockwell, its parent, subsidiaries, and affiliate corporations) who need to know such Proprietary Information for the purpose of evaluating the prospective business arrangements between Celeritas and Rockwell, who have been informed of the confidential nature of such Proprietary Information and who are bound in writing by the provisions of this Agreement; and

(v) will not disclose any of the Proprietary Information to any consultant or other third party in connection with any evaluation without prior written consent of the Disclosing Party, which consent may be conditioned upon such consult-

ants or other third parties' execution of an Agreement whose terms are at least as restrictive as this Agreement.

The foregoing shall not prohibit disclosure of Proprietary Information pursuant to the order of any court or governmental agency, provided that the Disclosing Party shall first notify the Receiving Party of any such order and afford such party the opportunity to seek a protective order relating to any such disclosure.

3. *Return.* Upon the completion or termination of the discussions between the parties, or at any time upon the Disclosing Party's written request, the Receiving Party shall immediately (i) return to the Disclosing Party all items or Proprietary Information (including all copies thereof) of the Disclosing Party and (ii) destroy any notes or personal memoranda which include or make reference to such Proprietary Information. The Receiving Party agrees to make only a minimal number of copies of the Proprietary Information provided by the Disclosing Party.

4. *Ownership.* All right, title and interest in and to the Proprietary Information disclosed by the Disclosing Party (including, without limitation, all patent, copyright, trademark, trade secret and other proprietary rights and interests therein) shall remain the exclusive property of the Disclosing Party. The parties acknowledge and agree that this Agreement shall not be construed as a transfer or sale by the Disclosing Party of any rights whatsoever, by license or otherwise, in or to any of its Proprietary Information.

5. *Injunctive Relief.* Celeritas and Rockwell acknowledge that the extent of damages in the event of the breach of any provision of this Agreement would be difficult or impossible to ascertain, and that there will be available no adequate remedy at law in the event of any such breach. Each party therefore agrees that in the event it breaches any provision of this Agreement, the other party will be entitled to seek

injunctive or other equitable relief, in addition to any other relief to which it may be entitled. The parties hereby waive any requirement for the posting of a bond or other security in connection with the granting of injunctive relief.

6. *General.*

6.1 This Agreement shall remain in effect until terminated in writing by either party. The obligations set forth in this Agreement shall remain in full force and effect with regard to any Proprietary Information disclosed prior to receipt of the written notice of termination.

6.2 This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to principles of conflicts of law. Each party hereby irrevocably submits to the jurisdiction and venue of the federal and/or state courts of the State of California for the purpose of any legal or equitable action arising under this Agreement. Each party agrees that service of process on such party in any such action may be made by certified or registered mail, return receipt requested, to the address of such party set forth above.

6.3 Since either party may choose not to do business with the other in the future, each acknowledges that the other is not responsible or liable for any business decisions made by either in reliance upon disclosures made during any meetings between the parties or in reliance on any results of the discussions.

6.4 Without the prior written consent of the U.S. Department of Commerce, as required, each party agrees not to transmit any of the Proprietary Information, directly or indirectly to any country or to any citizen or resident of any country proscribed by the U.S. Department of Commerce under its Export Administration Regulations. This obligation shall survive the termination of this Agreement.

6.5 In the event any provision of this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, the remaining provisions of this Agreement shall remain in full force and effect to the maximum extent possible.

6.6 This Agreement constitutes the entire agreement between the parties hereto relating to the subject matter hereof. All prior or contemporaneous agreements or understandings between Celeritas and Rockwell relating to the subject matter hereof, whether oral or written are superseded by and merged into this Agreement.

6.7 The waiver, express or implied, by any party of any of its rights arising under this Agreement, shall not constitute or be deemed a waiver of any other right hereunder, whether of a similar or dissimilar nature.

6.8 Each party represents to the other that this Agreement has been duly executed by it or its duly authorized officers or agents, and constitutes a valid, binding, and enforceable obligation of such party.

6.9 This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement shall not be assigned, nor shall any Proprietary Information be transferred to any successor or assignee, without the prior written consent of the Disclosing Party.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representatives, have executed this Agreement as of the date first set forth above.

Celeritas Technologies, Ltd.,
a California limited partnership
By: Celericom, Inc.
a California corporation,

By: /s/ Glenn R. Ray
Glenn R. Ray, President

Rockwell International
(Digital Communications Division), a Delaware corporation

By: /s/ E. Davis
Contract manager
9-2-93